

**“Public Morals” and “Honest Practices” in German and
Canadian Unfair Competition Law - A Proper Means of
Responding to New Challenges?**

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Abstract

The thesis focuses on the use of general terms in unfair competition law in the common law jurisdiction of Canada and the civil law jurisdiction of Germany. It describes how the terms "public morals" in the German *Act Against Unfair Competition* and "honest practices" in the Canadian *Trade-marks Act* are defined and interpreted by the courts in these two different jurisdictions.

While the German term more or less constitutes unfair competition law alone, the Canadian term has in the field of intellectual property a very controversial and dubious residual meaning. The analysis of Canadian judgments indicates three reasons for this significant difference in the importance of both terms. The first and most important reason is the difference in both Constitutions as to the division of powers. While the German term could be defined within the whole scope of civil law, the Canadian term from the very hour of its birth was limited to the subject-matter "trade and commerce" as interpreted by the J.C.P.C. and now the Supreme Court of Canada. The second reason is the different origin of unfair competition law in both countries. Being closely connected to the protection of trade-marks, Canadian unfair competition law was never and still is not concerned with practices that have little or nothing to do with direct interference with a competitor's proprietary rights. On the other hand, unfair competition law in Germany was and still is considered to be distinctive from intellectual property protection under other acts. Although the *Act Against Unfair Competition* was originally understood to be an instrument to protect the trader against dishonest competitors, the term "public morals"

remained open to further interpretation beyond the protection of a businesses reputation, and focuses on the consumers' interests in the first place. The third reason is the coexistence of unwritten and written law in Canada's common law jurisdiction. Some judgments support the idea that Canadian courts were not willing to go beyond well established common law principles for the interpretation of the term "honest practices".

Having shown these practical ways of interpretation the thesis shifts to the more theoretical question of whether the use of general terms is a constitutional means of reacting to new phenomena of social behaviour. First, it will be pointed out that the constitutional principle of vagueness sets a limit to the legislator's decision to refrain from a detailed regulation and to use instead general and intentionally imprecise terms. Secondly, the question will be addressed as to how *Charter* rights can influence the courts' interpretation of general terms.

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OLG Hamburg, GRUR 1990, 288.
OLG Hamm, GRUR 1990, 689.

Abbreviations and Explanations

A.C.	Law Report, Appeal Cases
Adel.L.R.	The Adelaide Law Review
A.-G.	Attorney-General
All Engl.Rep.	The All England Law Reports
annot.	annotation
Auck.U.L.Rev.	Auckland University Law Review
Austr.L.J.	The Australian Law Journal
BB	Betriebsberater (Law Journal)
B.C.	British Columbia
B.C.C.A.	British Columbia Court of Appeal
B.C.L.R.	British Columbia Law Report
B.C.S.C.	British Columbia Supreme Court
BGBI.	Bundesgesetzblatt (Federal Law Gazette; statutes and treaties series)
BGH	Bundesgerichtshof (Federal Supreme Court of Justice)
BGHZ	Entscheidungen des Bundesgerichtshofes in Zivilsachen (Federal Supreme Court of Justice law reports, civil law cases)
BVerfG	Bundesverfassungsgericht (Federal Constitutional Court)
BVerfGE	Entscheidungen des Bundesverfassungsgerichts (Federal Constitutional Court law reports)
C.A.	Court of Appeal
Camb.L.J.	The Cambridge Law Journal
Can.Bar Rev.	Canadian Bar Review

Can. Tax J.	Canadian Tax Journal
C.C.C.	Canadian Criminal Cases
Ch.D.	Law Reports, Chancery Division, 1875-1890 High Court of Justice, Chancery Division
C.L.P.	Current Legal Problems
C.I.P.R.	Canadian Intellectual Property Review
C.L.R.	Commonwealth Law Reports
C.P.R.	Canadian Patent Reporter
C.R.	Criminal Reports
Cro. Jac.	Croke's Reportss temp James I, King's Bench and Common Pleas, vol. 1, 1603-1625
Diss.	Dissertation
D.L.R.	Dominion Law Reports
DTC	Dominion Tax Cases
e.g.	exempli gratia
Einl.	Einleitung (introduction)
Exch. Ct.	Exchequer Court of Canada
F.C.	Federal Court Reports
F.C.A.	Federal Court of Appeal
F.C.T.D.	Federal Court, Trial Division
GG	Grundgesetz (Basic Law - German Constitution)
GWB	Gesetz gegen Wettbewerbsbeschränkungen (Restraint of Competition Act; Anti-Cartel Act)
Harv. J.L. & Publ. Pol.	Harvard Journal of Law and Public Policy

Harv.L.Rev.	Harvard Law Review
H.C.Austr.	High Court of Australia
H.L.	House of Lords
ibid.	ibidem
i.e.	id est
Isr.L.Rev.	Israel law Review
J.C.P.C.	Judicial Committee of the Privy Council
J.of the SPTL	Journal of the Society of Public Teachers of Law
JuS	Juristische Schulung (Law Journal)
JW	Juristische Wochenschrift (Law Journal)
K.B.	Law reports - King's Bench Division
K.B.D.	King's Bench Division
KG	Kammergericht (Regional Appeal Court of Berlin)
Leg.St.	Legal Studies
L.Q.R.	Law Quaterly Review
Mod.L.Rev.	Modern law Review
Mon.U.L.Rev.	Monash University Law Review
MuW	Markenschutz und Wettbewerb (Law Journal)
NJW	Neue Juristische Wochenschrift (Law Journal)
NJW-RR	Neue Juristische Wochenschrift-Rechtsprechungsreport (Law Journal)
N.Z.L.J.	New Zealand Law Journal
OLG	Oberlandesgericht (Regional Appeal Court)

Ont.C.A.	Ontario Court of Appeal
Ont.H.C.	Ontario High Court (of Justice)
Ont.Prov.Ct.	Ontario Provincial Court
O.R.	Ontario Reports
Pace L.Rev.	Pace Law Review
Qué.S.C.	Québec Superior Court
RabattG	Rabattgesetz (Act on Discounts)
RG	Reichsgericht (Supreme Court of the former German Reich)
RG (GS)	Reichsgericht (Großer Senat) (Supreme Court of the former German Reich, Enlarged senate)
RGBl.	Reichsgesetzblatt (Law Gazette of the former German Reich; statutes and treaties series)
RGZ	Entscheidungen des Reichsgerichts in Zivilsachen (Supreme Court of the former German Reich law reports, civil law cases)
R.P.C.	Report of Patent Cases
R.S.A.	Revised Statutes of Alberta
R.S.B.C.	Revised Statutes of British Columbia
R.S.C.	Revised Statutes of Canada
R.S.M.	Revised Statutes of Manitoba
R.S.N.T.	Revised Statutes of Northwest Territories
R.S.O.	Revised Statutes of Ontario
R.S.P.E.I.	Revised Statutes of Prince Edward Island
S.Afr.L.J.	South African Law Journal
S.Cal.L.Rev.	South California Law Review

S.C.	Statutes of Canada
S.C.C.	Supreme Court of Canada
S.C.R.	Supreme Court Reports
Supp.	Supplement
Tul.L.Rev.	Tulane Law Review
U.B.C.L.Rev.	The University of British Columbia Law Review
U.N.S.W.L.J.	The University of New South Wales Law Journal
U.of Pitt.L.Rev.	The University of Pittsburg Law Review
UWG	Gesetz gegen den unlauteren Wettbewerb (Act against Unfair Competition)
W.Austr.L.Rev.	Western Australia Law Review
W.L.R.	The Weekly Law Reports
WRP	Wettbewerb in Recht und Praxis (Law Journal)
ZugabeVO	Zugabeverordnung (Regulation governing free gifts with sales)

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CHAPTER I: Introduction

1) The bases for judicial decisions

“Justice as an abstraction or as a paper model is no use to man.”¹

I agree with Scarman’s assessment that the essential morality of case law lies in the fact that it recognizes this truth. Neither is law a mere aggregate of theoretical rules and customs but rather rights that are actually granted and duties that are actually imposed by the courts, and ultimately enforced by state authorities.² This is true for a common law system and a civil law system alike. A statutorily-granted right is of little value where the court’s willingness to apply the statute is doubtful, and the reference to customs and habits as the sources of common law³ is a blunt sword where a trader cannot rely on the enforcement of these customs. It has been pointed out, however, that “customs which *will* be recognised by a judge are already law.”⁴ This might be true but the question is not when a pattern of established social behaviour can be labelled ‘law’ but when rights and duties that are considered to result from this behaviour can be enforced. This shift from a moral or social obligation to rule adherence to a legal and enforceable obligation constitutes law as referred to here. The latter is why common law has not ‘always been

¹ Scarman, *Common Law and Ethical Principle* (1976), at 9.

² Hogue, *Origins of Common Law* (1966), at 175, *e.g.*, describes common law as a ‘body of rules prescribing social conduct which was justiciable in the royal courts in England’.

³ See *e.g.* Sadler, *The Relation of Custom to Law* (1919), at 1 ff. and at 50 where he refers to Austin, *Lectures of Jurisprudence*, declaring “that a custom became a law when it was recognised by a judge of the State.” See also Dawson, *The Oracles of the Law* (1968), at 2, who states that “the solid core [of common law] was English custom (...)”

⁴ Sadler, *supra* note 3, at 50.

there" but was created by judges when they made trade customs and rules of social conduct legally binding.⁵ This reason, however, has not always been accepted. As *Stone* points out, "[m]ost British judges and lawyers all the time, and all of them some of the time, do regard judicial decisions as either direct application of existing law, or logical deductions from some existing principle."⁶ As a result of this "declaratory theory"⁷ it was concluded that "the judge does not make the law, he merely declares it" and that "[i]f it is unclear, the judge's task is to 'find' the law".⁸ However, following a more modern understanding of the judges' role in the process of law-making (so-called "realist" or "positivist theory")⁹, the existence of "judiciary law"¹⁰ or "judicial law-making"¹¹ is no

⁵ See Dawson, *supra* note 3, *ibid.*, who states "that the English common law from the very beginning was created by the royal judges who administered the new royal remedies". See also Hogue, *supra* note 2, who explains the continuing growth of common law at 233: "Bold judges have created precedents adding new rules to meet new social and economic circumstances."

⁶ *The Province and Function of Law* (1950), at 168.

⁷ See e.g. Atiyah, "Judges and Policy" (1980), 15 *Isr. L. Rev.* 346-347; Krygier, "Julius Stone: Leeways of Choice, Legal Tradition and the Declaratory Theory of Law" (1986), *U.N.S.W. L. J.* 31.

⁸ See e.g. Atiyah, *supra* note 7, *ibid.*

⁹ See Ayitah, *supra* note 7, at 348; Krygier, *supra* note 7, at 31.

¹⁰ This term has been used "to emphasize the view that the judge, though, as it is said, nominally doing no more than declaring the existing law, may be said in truth to be making it", Barwick, "Judiciary Law: Some Observation Thereon" (1980), 33 *C.L.P.* 239-240.

¹¹ See e.g. Pound, "Common Law and Legislation" (1908), 21 *Harv.L.Rev.* 383; Stone, *Recent Trends in English Precedent* (1945) and *The Province and Function of Law* (1950) and *Precedent and Law* (1985); Frank, *Courts on Trial* (1949), particularly at 292 ff.; Reid, "The Judges As Law Makers" (1972), 12 *J. of the SPTL* 22, 22-23, who regards the declaratory theory as "a fairy tale"; Tate, "The 'New' Judicial Solution: Occasions For and Limits to Judicial Creativity" (1980), 54 *Tul.L. Rev.* 877; Scarman, "Ninth Wilfred Fullagar Memorial Lecture: The Common Law Judge and the Twentieth Century - Happy Marriage or Irretrievable Breakdown?" (1980), 7 *Mon.U.L.Rev.* 1, who, at 16, considers the common law to be "the judges' contribution to law-making"; Cappelletti, "The Law-Making Power of the Judge and Its Limits: A Comparative Analysis" (1981), 8 *Mon.U.L. Rev.* 15; Richardson, "Thirteenth Wilfred Fullagar Memorial Lecture: Judges As

longer seriously denied "where no authority binds or current or acceptable decision compels."¹² It follows that even (or especially) today when courts face new kinds of behaviour, the reference to "well established common law principles" is not a mere application of law but the creation of it where precedents provide no guideline and thus new rules are made a system of rights and duties by judges.¹³

In order to determine on what grounds this granting of rights and imposing of duties is to be made, it has to be decided - so to speak in the very hour of birth of law - how much weight is to be given to statutes, judicial precedent and academic juristic opinion in the courts' process of decision making. The English effort to create laws that continuously mirror contemporary social rules and reflect the character of the social order has made the judiciary look suspiciously at written law, and has ultimately led to the predominance of

Lawmakers in the 1990s" (1986), 12 Mon.U.L.Rev. 35, who, at 36, states: "In explaining what the statute means the Court makes law just as if the explanation given were contained in a new Act of Parliament", Krygier, *supra* note 7; McHugh, "The Law-Making Function of the Judicial Process - Part II" (1988), 62 Austr.L. J. 116; Kramer, "The Lawmaking Power of the Federal Courts" (1992), 12 Pace L. Rev. 263. But see also the critical views of Devlin, "Judges and Lawmakers" (1976), 39 Mod. L. Rev. 1; Atiyah, *supra* note 7.

¹² This expression has been taken from *The Mutual Life & Citizen's Assurance Company Limited v. Evatt* (1968), 122 C.L.R. 556, at 563, where the High Court of Australia regarded "[t]he matter so far as this Court is concerned [to be] free of any binding authority" but nevertheless saw its task in *declaring* "the common law in this respect for Australia".

¹³ See Dawson, *supra* note 3, *ibid*. See also Houghteling, *The Dynamics of Law* (1963), at 65: "When do judges 'make law'? They do so every time they decide a case that no existing rule quite fits. They make law when, in order to determine what rule applies to a case, they interpret a statute or a constitutional provision. They also make law when, in the absence of either an applicable legislative rule or a directly controlling precedent, they have to create a rule by building on the precedents established in analogous cases."

common law.¹⁴ However, the flexibility and adaptability that permits the continual adjustment of law to social necessities is only one side of common law. The other side is a lack of permanence, stability and certainty in legal doctrines, the necessary result of the “elasticity” of the law.¹⁵ This may be surprising at first glance because the basic features of common law, the doctrines of precedent and stare decisis, are generally thought to provide the three C’s: Certainty, Consistency and Continuity.¹⁶ The principle that all courts are bound by the decisions of superior courts¹⁷, however, requires the existence of precedents, of cases that have already dealt with similar or identical circumstances. If there is no precedent the court that - one way or another - is required to make a decision resorts to its own understanding of fairness and justice and thus creates law according to its own opinion of what law should be. Of course, apart from highly exceptional cases the courts are guided by existing principles. Applying these principles to a new set of circumstances and thus adding a new rule to them is (in most cases) nothing but a mere adoption and development of the principles. However, existing principles are only law to the extent they

¹⁴ See e.g. Hogue, *supra* note 2, at 3-4; Cappelletti, *supra* note 11, at 47; Stone, *Precedent and Law* (1985), *supra* note 11, at 117 ff. See also *Prager v. Blatspiel, Stamp and Heacock, Limited* (1924), 1 K.B. 566 (K.B.D.), where it was stated at 570: “The object of the common law is to solve difficulties and adjust relations in social and commercial life. (...) It must grow with the development of the nation. It must face and deal with changing or novel circumstances. Unless it can do that it fails in its function (...)” The term “common law” as referred to in this context means common law as opposed to statutory law. However, common law can also be understood as encompassing precedents that result from the application of statutes.

¹⁵ See Hogue, *supra* note 2, at 8 ff.

¹⁶ See e.g. Freedman, “Continuity and Change - A Task of Reconciliation” (1973), 8 U.B.C. L. Rev. 209; Gall, *The Canadian Legal System* (1990), at 289.

¹⁷ As the doctrine of stare decisis is described by Friedmann, “Stare Decisis at Common Law and under the Civil Code of Quebec” (1953), 31 Can. Bar Rev. 723 at 725.

exist. To develop them means to change their scope of application, to make it broader or narrower; to apply them to a new set of circumstances means to modify them and thus to create law. Therefore, when speaking of certainty in common law one has to distinguish two different situations: The doctrine of stare decisis which requires a principle of (already created) law to be applied to a particular state of facts, and the creation of law which takes place where such a principle in the form of a precedent does not cover the new circumstances. Only the obligation to follow decided cases provides certainty and continuity. When it comes to the creation of law, certainty and continuity are exactly what would hinder an independent process of decision making by the courts; or in other words, the granting of flexibility to the judiciary requires the absence of an assumably complete and conclusive system of codified principles. This approach to creating law case by case and the ability to distinguish cases so as to allow new circumstances to be subject to a new “unbound” decision does contain more instability than the creation of law by providing a system of codified principles which is supposed to be complete and conclusive.¹⁸

Another proof for this assessment is provided by a current tendency in common law jurisdictions, namely, the limits on the ability of practitioners of common law to adapt the

¹⁸ See Dawson, *supra* note 3, at 93, who points out that “[f]or law developed by case-law methods is sure to contain unsuspected gaps and fissures, open paths leading in different directions, crossing points where the trails marked out in the past intersect and choices must be made that are essentially free.” See also Lord Gardiner’s assessment that the use of precedent provides “*at least some degree of certainty* upon which individuals can rely in the conduct of their affairs (...)”; Practice Statement (Judicial Precedent), [1966] 1 W.L.R. 1234. (My emphasis). See also Richardson, *supra* note 11, at 35-36: “Judicial intervention is perhaps more recognized in areas of the common law where (...) there is general warrant for judicial law making, than in statute law where there must at least be a presumption that Parliament has said all that it wanted to say on a particular topic.”

legal system to new conditions.¹⁹ Modern societies have become tremendously complex.²⁰ A new emphasis on self-determination, self-fulfillment and individual freedom and an apparently increasing unwillingness to respect or even accept the needs of others and the interest of the community demands state intervention to create new rules to balance the competing freedoms involved.²¹ This need becomes more urgent the more an economic system allows the rise of dominant and highly influential corporations and the more such corporations face less powerful entities in the market-place.²² Thus, it is not surprising that in 1965 it could be observed that the legislative bodies of the United States had produced more statutes this century than had been enacted in all legislatures of the known world in all previous history.²³ One reason for this "tremendous increase in the amount of

¹⁹ See Hutchinson's remarkable statement in "The Death of Common Law?", Canadian Lawyer May/June 1983, 26: "The common law is dead, but it refuses to be buried. Sustained by legal tradition and self-preservation, Our Lady of the Common Law still demands legal affection. Yet, in the final decades of the twentieth century, her continued ghostly presence is an embarrassment and an affront to the society it serves. The legal community must shake itself free from this dated infatuation. We must embark upon a complete rethinking of the judicial function."

²⁰ See e.g. the examples provided by Tate, *supra* note 11, at 877, fn. 1.

²¹ See e.g. *Regina v. Nova Scotia Pharmaceutical Society* (1992), 43 C.P.R. (3d) 1 where the S.C.C. states that "[t]he modern state, while acting as an enforcer, assumes more and more of an arbitration role" (at 24).

²² See e.g. Hogg, "Is the Supreme Court of Canada Biased in Constitutional Questions?" (1979), 57 Can. Bar Rev. 721, who stated at 728: "The improvements in transportation and communication, and other technological developments, have led to larger and larger business units which can take advantage of the techniques of mass production, mass distribution and mass advertisement. (...) The general tendency of technological changes is to convert activities which (...) could be governed by the private law of contract, tort, and property, into activities which extend across the entire nation, make use of public facilities and require regulation in order to protect the public from predatory or monopolistic practices."

²³ Buckland/Mc Nair, *Roman and Common Law* (1965), at 11.

legislation (...) in common law jurisdictions”²⁴ is a greater efficiency that is provided by an overarching regulatory scheme. This is so because the common law can develop only slowly on a case by case basis whereas the legislator can collect all relevant and necessary data before it regulates a specific subject-matter. Another reason is that those who live in this highly complex world need certainty about what conduct is expected from them to act accordingly. Traders simply need to know in advance the way how they can carry on their business to foresee the possible risks.

On the other hand, those legal systems which had - either fully or partially - assimilated Roman law and thus created a law essentially based on written statutes face a considerable lack of flexibility in reacting to new kinds of social conduct. This has been most clearly and impressively described in the statement by the drafters of the French *Civil Code* to explain the manner in which they approach their task:²⁵

“We have equally avoided the dangerous ambition to desire to regulate and foresee everything. Is it not strange that those to whom a code always appears too large imperiously give the legislator the terrible task of leaving nothing to the decision of the judge? Regardless of what one does, positive laws will never be able to replace entirely the use of natural reason in the affairs of life. The needs of society are so varied, the intercourse among humans so active, their interests so multiple, and their relationships so extensive that it is impossible for the legislator to

²⁴ Gall, *supra* note 16, at 29. See also Hutchinson, *supra* note 19: “The distinguishing feature of twentieth century legal history has been the shift from the common law to legislation as the major source of law. (...) The number of statutes and statutory instruments currently in force in Canada runs into the tens of thousands. In Ontario, alone, over 100 government Bills were introduced in the legislature in 1982 and over 60 of them were enacted.”

²⁵ Portalis, Tronchet, Bigot-Préameneu & Maleville, Discours préliminaire, in 1 J. Locré, *La Législation Civile, Commerciale et Criminelle de la France* 251, at 255-72 (1827), cited by von Mehren/Gordley, *The Civil Law System* (1979), at 54.

foresee everything. Even in the matters upon which he fixes his particular attention there are a host of details that escapes his attention or are too disputed or too rapidly changing to become the object of the text of law. Moreover, how can one hold back the action of time? How can the course of events be opposed, or the gradual improvement of mores? How can one know and calculate in advance what only experience can reveal to us? Can foresight ever extend to those objects which thought cannot reach?"

The conclusion to which the drafters of the French *Civil Code* came was that the "science of the legislator consists in finding, in each matter the principles most favourable to the common good" whereas "the science of the judges is to put these principles in action, to develop them, to extend them, by a wise and reasoned application, to private relations; to study the spirit of the law when the letter kills, and not to expose himself to the risk of being alternatively slave or rebel, or to disobey because of a servile spirit."²⁶

The requirement "to extend principles", "to study the spirit of the law" and "to disobey because of a servile spirit" leaves the judge in a most unfavourable position and creates some discomfort not only for those who have to apply the law but also for those who are subject to judicial decisions. Furthermore, according to the current German understanding of the separation of powers and the *Rechtsstaat* principle²⁷, a judge is strictly bound by the law.²⁸ Law must not be created by the judiciary but rather provided by a democratically-

²⁶ *Supra* note 25, at 55.

²⁷ See as to this term fn. 323.

²⁸ In Germany every court can consider a statutory provision void if it holds that the provision contravenes the German Constitution (*Grundgesetz* - GG). However, statutes that have been passed after the enactment of the Constitution in 1949 can be declared to be unconstitutional and thus be treated as invalid only by the Federal Constitutional Court (*Bundesverfassungsgericht* - BVerfG). If a different court takes the view that such a statute violates the Constitution it must suspend the process and submit the file to the Federal Constitutional Court.

authorized legislative body.²⁹ Of course, as the drafters of the French Civil Code point out, statutes always give way to various interpretations and the more imaginative a judge is the more he finds himself able to read his own view into the text of a statute. But every judicial interpretation has to be made on the grounds of textual analysis and with regard to the intention of the legislator and the purpose of the legislation.³⁰ Otherwise it is no longer interpretation but rather making of law, which the judge is not authorized to do.

In between the "flexible" common law approach and the "stable" civil law approach to determine what law should be stands the use of general terms in statutes, which can be

²⁹ See e.g. Pound, *supra* note 11, at 406-407: "Formerly it was argued that common law was superior to legislation because it was customary and rested upon the consent of the governed. Today we recognize that the so-called custom is a custom of judicial decision, not a custom of popular action. We recognize that legislation is the more truly democratic form of law-making. We see in legislation the more direct and accurate expression of the general will." See also Frank, *supra* note 11, at 292: "(...) the legislatures come closest to reflecting popular desires." The lack of democratic legitimation seems also to be Dawson's concern when he, *supra* note 3, at 92, refers to the principle of precedent: "The cases that reach a high appellate court are a selected group in which (...) the court must make law. Judges who declare themselves slaves to the past are thus in some degree, inescapably, sovereigns in controlling the future. The binding effect of high court decisions, as interpreted in England for 68 years, meant that high court judges in announcing their reasons could bind themselves and their successors in a way that Parliament, the ultimate sovereign, could not do if it tried. No one explained the source of this power." On the other hand, this strict doctrine of precedent was considered to be the proper means of avoiding that "(...) judges will be tempted to encroach on the proper field of the legislature (...)", *Myers v. Director of Public Prosecutions* [1964], 2 All Eng. Rep. 881, at 886 (H.L.).

³⁰ See e.g. Nastelski, *Unbestimmte Rechtsbegriffe, Generalklauseln und Revision*, GRUR 1968, 545, at 548 and *Schutz der Allgemeinheit im Wettbewerbsrecht*, GRUR 1969, 322, at 325; Kisseler, *Wettbewerbsrecht und Verbraucherschutz*, WRP 1972, 557, at 559; Sack, *Die lückenausfüllende Funktion der Sittenwidrigkeitsklauseln*, WRP 1985, 1, at 4; Richardson, *supra* note 11, at 36. The four different ways of interpretation used in German jurisprudence are the grammatical, the historical, the teleological and the systematical (or contextual) interpretation.

considered an attempt to combine the advantages of both approaches. General terms as written law provide the expressed will of the legislator as to what law should be and therefore leave no doubt about the general scheme of rules which the legislator wants to govern the activities he aims at. However, since the purpose of the usage of general terms is to cover a broad range of social conduct that the legislator is unable to regulate in detail, general terms need to be interpreted and defined by the judiciary to be effectively applied. The judge thus replaces the legislator as far as the details and the subtleties are concerned.³¹

The following thesis will describe how a common law and a civil law jurisdiction deal with general terms. Under civil law, the use of general terms is certainly a step towards the common law approach. On the basis of the legislator's expressed intention the courts

³¹ See Ott, *Systemwandel im Wettbewerbsrecht* in *Festschrift für L. Raiser* (1974) 403, at 404; see also Sack, *supra* note 30, at 2, and Hirtz, *Der Rechtsbegriff "Gute Sitten" in § 1 UWG*, *GRUR* 1986, 110, at 111 who both refer to the blanket clause in § 1 UWG as a 'piece of left-open legislation'. In *§ 1 UWG und Wirtschaftspolitik*, *WRP* 1974, 247, at 253, Sack also refers to the application of § 1 UWG as a 'judiciary's legislation'. As to the common law jurisdiction see e.g. Lane, 'Legislative Process and Its Judicial Renderings: A Study in Contrast' (1987), 48 *U.of Pitt.L.Rev.* 639, who at 655 considers 'planned vagueness' as one of the cases in which lawmaking is delegated to the judiciary; and Houghteling, *supra* note 13, at 115-116: 'Realizing their [framers of statutes] inability to do this [provide for all possible future situations], the wisest legislators have been usually preferred to be deliberately imprecise; by the generality of their language they have in effect delegated to others the task of filling in the details. The principal recipients of this authority are administrative officials and judges. The more imprecise the statute, the greater the delegated authority; (...) the 'interpreter' becomes in effect the true lawmaker.' But see also *Regina v. Nova Scotia Pharmaceutical Society* (1992), *supra* note 21, at 24-5 where the Supreme Court 'fail[s] to see a difference in kind between general provisions where the judiciary would assume part of the legislative role and "mechanical" provisions where the judiciary would simply apply the law'. The Supreme Court concludes that "[t]he judiciary always has a mediating role in the acualization of law, although the extent to this role may vary".

eventually create a large number of precedents that can serve as directives and guides for other courts dealing with identical or similar cases. The final result is the creation of judge-made law within the ambit of a written statute. The broader the term in the statute and the more case law is accepted as decisive authority for interpretation of the term, the more the judgements of higher courts have an actual binding effect on lower courts³², and the more this case law replaces the need for further detailed legislative regulation and the closer the civil law comes to common law.³³ For a common law jurisdiction the use of general statutory terms is unfamiliar. Unlike common law in general, case law that results from the interpretation and specification of a general term in a statute is restricted by the legislator's intention and purpose. Moreover, the rise of this type of judge-made law beside common law makes it necessary for the courts to determine the mutual influence between both kinds of *lex non scripta*.³⁴

³² See e.g. Nordemann, *Der verständige Durchschnittsgewerbetreibende*, GRUR 1975, 625, who states at 627 that a long tradition and a large number of judgements have given the 'sense-of-decency-phrase' a certain stability and who expresses on the same page his admiration for the BGH having established a 'quite reliable' jurisdiction as to § 1 UWG. Indeed, the judgements of the BGH have a tremendous impact on the dispensation of justice by the lower courts. It is very seldom that a lower court's decision differ from precedents provided by the BGH. As to the impact of higher courts' decisions on lower courts in civil law jurisdictions see Gall, *supra* note 16, at 29. See also Sack, *supra* note 30, who states that judge-made law carries the 'presumption of correctness' and that lower courts' decisions should vary from Supreme Court's decisions only when the lower court has 'weighty doubts' about the correctness of the precedent (at 8).

³³ See e.g. Loewenheim, *Suggestivwerbung, unlauterer Wettbewerb, Wettbewerbsfreiheit und Verbraucherschutz*, GRUR 1975, 99, at 103 who draws a comparison between the specification of the term 'public morals' by the courts and the 'Anglo-American case law'. This also seems to be the view of Knight, 'Unfair Competition: A Comparative Study of Its Role in Common and Civil Law Systems' (1978), 53 Tul.L.Rev. 164, when she states at 176 that Germany has 'developed a 'common law' in this area far more comprehensive than that of the United States.'

³⁴ See fn. 14 for the meaning of the term 'common law' as referred to in this context.

This thesis will focus on the use of general terms in unfair competition law in the common law jurisdiction of Canada and the civil law jurisdiction of Germany. It will describe how the terms ‘public morals’³⁵ and ‘honest practices’ have been defined and interpreted by German and Canadian courts. A brief outline of the statutory situation in Germany will be given first in order to explain the context in which the term ‘public morals’ is embedded. Then it will be outlined how first the *Reichsgericht* (RG - Supreme Court of the former German Reich³⁶) and later the *Bundesgerichtshof* (BGH - Federal Supreme Court of Justice), which as the successor of the *Reichsgericht* generally followed the practices of its predecessor, were able to give the general expression ‘public morals’ concrete terms and to make use of only one provision to decide a wide range of totally different cases.

Next I will describe how Canadian courts have interpreted the term ‘honest practices’. In 1976, paragraph 7(e) of the *Trade-marks Act* of 1953³⁷, which contains the term ‘honest practices’, was held *ultra vires* the Federal Parliament by the Supreme Court of Canada.³⁸

³⁵ The term “*gute Sitten*” can be translated in different ways, one of which is ‘public morals’ which in my opinion fits the German term best. Other translations could be ‘good manners’, ‘morality’, ‘public policy’, ‘bona mores’ or ‘unconscionability’. Business actions violating § 1 *UWG* are often called ‘unconscionable’, ‘unfair’, ‘dishonest’ or ‘contrary to fair competition’. When using the term ‘unconscionable’ one has to bear in mind that the unfair competition law does not deal with the question as to whether the content of a contract is fair and the contract invalid, in connection of which the term is often used, too.

³⁶ It should be noted that the *Reichsgericht* is also known as the so-called ‘Imperial Court’, see e.g. Dawson, *supra* note 3, at 446. This translation, however, is imprecise and misleading because the *Reichsgericht* began its sessions in 1879 and ceased to exist in 1945. Thus its jurisdiction covers a period that is not identical with the period of existence of the so-called “Imperial Germany” (1871-1918).

³⁷ R.S.C. 1970 ch. T-10.

³⁸ *MacDonald v. Vapour Canada Ltd.* (1976), 22 C.P.R. (2d) 1.

To understand the reasoning of the Supreme Court, the difficulties the court had in defining the relationship between "provincial" common law and "federal" statutory law, and to illustrate the statutory context of the term, it is necessary to give a short overview of the Canadian unfair competition law and - to some limited extent - consumer protection legislation.

Having shown these practical and actual ways of interpretation, the thesis will shift to the more theoretical question of whether the use of general terms is a constitutional means of reacting to new phenomena of social behaviour. First, I will show that the constitutional principle of vagueness sets a limit to the legislator's decision to refrain from a detailed regulation and to use general and thus intentionally imprecise terms instead. Secondly, the question will be addressed as to how *Charter* rights can influence the courts' interpretation of general terms. Although these questions will be answered with reference to the terms "public morals" and "honest practices", they are not restricted to the field of unfair competition law, but occur in every statute which contains a general term or comprehensive clause.

2) Changing business methods and adaptability of law

The fight for new markets and an increasing commercialization of our lives and the flourishing technology which enables us to reach everyone almost everywhere at any time

make it necessary for the state to look at current business ethics³⁹, and to examine whether an unfair competition law is able to adjust itself easily to new business practices so as to ensure proper business methods for a well functioning market and to protect the consumer against pestering, confusion and deceit.

For Canada and Germany this is an obligation imposed by the Union Convention of Paris for the Protection of Industrial Property (March 20, 1883) to which both countries are parties. Article 10*bis* subsection 1 of the Paris Convention requires parties to assure effective protection against unfair competition which is described as "any act of competition contrary to honest practices in industrial or commercial matter".⁴⁰ And yet,

³⁹ See again Hogg's statement, *supra* note 22; see also Shaw, *The Law of Unfair Competition* (1965), at 2, who explains the unfixed and extending scope of the law of Unfair Competition with "changing methods of business and changing standards of commercial morality" and with the "ingenuity of unscrupulous traders [which] never fails (...) to spawn new devices for capitalizing on the growing complexities of modern business." One only needs to think of the new means of communication such as telephone, telefax and internet, of the immense importance of mass media to the creation of public opinion, and of her or his going shopping on Robson Street in Vancouver, B.C. on Boxing Day.

⁴⁰ Article 10*bis* of the Union Convention reads:

1. The countries of the Union are bound to assure to nationals of such countries effective protection against unfair competition.
2. Any act of competition contrary to honest practices in industrial or commercial matters constitutes an act of unfair competition.
3. The following in particular shall be prohibited:
 - (1) all acts of such a nature as to create confusion by any means whatever with the establishment, the goods, or the industrial or commercial activities, of a competitor;
 - (2) false allegations in the course of trade of such a nature as to discredit the establishment, the goods, or the industrial or commercial activities, of a competitor;
 - (3) indications or allegations the use of which in the course of trade is liable to mislead the public as to the nature, the manufacturing process, the characteristics, the suitability for their purpose, or the quantity, of the goods.

although both countries essentially cover the same issues, their approaches to accomplish their obligations are not only different but also appear to be contrary to their basic legal system.

The *Act Against Unfair Competition*⁴¹ on which the German unfair competition law is based provides judges essentially with only one very general provision, according to which someone can be held liable for damages if he uses business practices which violate "public morals". On this very broad statement, German courts under the leadership formerly of the *Reichsgericht* and now of the *Bundesgerichtshof*, must determine which practices can be considered unfair. This responsibility devolves on them because the legislator, confronted by a varied and multi-faceted and continually changing economic life, was not able to foresee all possible situations and provide detailed regulations.

On the other hand, Canada has implemented the Paris Convention obligation to assure effective protection against "any act of competition contrary to honest practices in industrial or commercial matter" by enacting a large number of rules, federally and provincially, describing precisely which cases constitute an unfair practice. Canadian legislators did not, however, forget to allow the courts to respond independently to new business methods. They preserved this judicial discretion by prohibiting "business practices

⁴¹ *Gesetz gegen den unlauteren Wettbewerb* of 1909, *RGBl.* p. 499, most recently altered by the Act of October 25, 1994 (*BGBl.* I p. 3082).

contrary to honest industrial and commercial usage in Canada” in their various acts regulating trade-marks and unfair competition.

3) Different terminology and different approaches

A comparison between two different jurisdictions always involves the danger of trying to compare things which are actually incomparable. Different terminology for identical matters and identical terminology for different matters can cause confusion and lead to wrong assumptions. Taking this issue into account must therefore be of constant concern in this thesis. Thus it is necessary to explain what is covered by unfair competition law in Germany and Canada.

Unfair competition law in Germany focusses on the conduct of traders in competition. Unfair competition law does not provide measures to establish freedom of competition but rather requires the very existence of it.⁴² To ensure that there is competition in the market place is the concern of the *Gesetz gegen Wettbewerbsbeschränkungen* (*GWB - Restraint of Competition Act; Anti-Cartel Act*)⁴³; the task of unfair competition law is to ensure that this competition is and remains fair. Notwithstanding this basic difference anti-cartel law and unfair competition law do influence each other in that both take on the misuse of economic freedom.⁴⁴ Once there is competition in the market-place, unfair competition

⁴² See e.g. Emmerich, *Das Recht des unlauteren Wettbewerbs*, 4th edition (1995), at 1

⁴³ In the version published February 20, 1990 (*BGBI. I p. 235*), most recently altered by the Act of October 28, 1994 (*BGBI. I p. 3210*).

⁴⁴ See Loewenheim, *supra* note 16, at 104; Sack, *supra* note 33, at 5-6.

law attempts to prohibit trade practices that because of their unfair character are likely to cause an unjustified advantage for their practitioners and thus ultimately lead to the removal of competitors. This being so, unfair competition law differs from anti-cartel law in terms of its thrust. While the latter seeks to prevent restriction of competition by mutual and collusive agreements, the former concentrates on instances of confrontation and rivalry that contravene the idea of competition and eventually lead to its elimination.⁴⁵ Furthermore, German unfair competition law is not meant to protect monopoly intellectual property rights. The protection of exclusive rights in registered trade-marks, trade-names and patents and the protection of copyright are dealt with by special acts, such as the *Markengesetz (Trade-marks Act)*⁴⁶, *Patentgesetz (Patent Act)*⁴⁷, *Gebrauchsmustergesetz (Utility Models Act)*⁴⁸ and *Urheberrechtsgesetz (Copyright Act)*.⁴⁹ The principal rule⁵⁰ is that where there is no right of action under these special acts the commercial activity in

⁴⁵ See Lehmann, *Wirtschaftspolitische Kriterien in § 1 UWG*, *Mitarbeiterschrift für E. Ulmer* (1973), 321, at 328.

⁴⁶ *Gesetz über den Schutz von Marken und sonstigen Kennzeichen* of 25.10.1994 (*BGBI.* I p. 3082, revised *BGBI.* I p. 156).

⁴⁷ *Patentgesetz* 1981 in the version published December 16, 1980 (*BGBI.* 1981 I p. 1), most recently altered by the *Gesetz zur Reform des Markenrechts und zur Umsetzung der Ersten Richtlinie 89/104 EGG des Rates vom 21.12.1988 zur Angleichung der Rechtsvorschriften der Mitgliedstaaten über die Marken (Markenrechtsreformgesetz)* vom 25.12.1994 (*BGBI.* 1994 I p. 3082).

⁴⁸ *Gebrauchsmustergesetz* of 28.08.1986 (*BGBI.* I p. 1455), most recently altered by the *Gesetz zur Neuordnung des Berufsrecht der Rechtsanwälte und Patentanwälte* of 02.09.1994 (*BGBI.* I p. 2278).

⁴⁹ *Gesetz über Urheberrecht und verwandte Schutzrechte* of 09.09.1965 (*BGBI.* I p. 1273), most recently altered by the *Gesetz zur Anpassung des EWR-Ausführungsgesetz* of 27.09.1993 (*BGBI.* I p. 1666).

⁵⁰ For details see p. 37-38.

question cannot be considered unfair and thus be prohibited under unfair competition law.⁵¹

On the other hand, from the very beginning Canadian unfair competition legislation has dealt with the protection of trade-marks.⁵² Today the term "Unfair Competition" is generally applied "to all dishonest or fraudulent rivalry in trade and commerce, but in particular (...) to the practice of endeavouring to substitute one's own goods or products in the markets for those of another (...) "⁵³, and thus to benefit from the competitor's reputation. It follows that also in Canada unfair competition law is essentially not anti-cartel law⁵⁴ which was first covered by the *Criminal Code*⁵⁵, later by the *Combines Investigation Act*⁵⁶ and which is now regulated by the *Competition Act*⁵⁷ This current understanding of what unfair competition law deals with, namely protecting of competitors and (as will be shown) consumers against false and misleading representations, explains the close connection between unfair competition and

⁵¹ Baumbach/Hefermehl, *Wettbewerbsrecht*, 15th edition (1988), § 1 UWG, annot. 407.

⁵² See the *Act respecting Unfair Competition in Trade and Commerce*, R.S.C. 1952 ch. 274; the *Act relating to Trade Marks and Unfair Competition*, R.S.C. 1970 ch. T-10 and Shaw, *supra* note 39, at 4, who considers it as being "well settled that the law of Trade marks and Trade-Names is but a branch of the broader law of Unfair Competition."

⁵³ Black's Law Dictionary, Revised Fourth Edition, 1968. The reference to the U.S. - American law dictionary is permissible because there are no detectable differences between the subject-matters that are governed by Canadian and U.S.-American unfair competition law.

⁵⁴ The emphasis placed on this distinction is to be explained by the personal experience that everyone to whom the subject-matter of this thesis was introduced thought that it deals with anti-cartel law.

⁵⁵ R.S.C. 1927, ch. 36.

⁵⁶ R.S.C. 1970, ch. C-23.

⁵⁷ R.S.C. 1985, ch. C-34.

advertising⁵⁸ and makes it necessary to look at federal and provincial regulation of the latter. When comparing the scope of application of the terms ‘public morals’ and ‘honest practices’, this thesis will focus on these issues and only refer to related regulation under anti-cartel law when it becomes necessary either to illustrate the corresponding Canadian regulation of what is covered by the German term ‘public morals’, or to portray ‘dishonest and fraudulent rivalry in trade and commerce’ that is not related to combines, monopolies, trusts and mergers.

Finally, it should be mentioned that a survey of the ways the term ‘public morals’ has been interpreted should necessarily be broad, and conclusions confined to more general and basic features. Given that far more than 2000 decisions of the *Bundesgerichtshof* on the *Act against Unfair Competition* and its additional statutes have been published since 1950⁵⁹, this thesis cannot deal with all the details and subtleties, however interesting they might be for both the author and the reader. The same must apply for the overview of the Canadian unfair competition legislation. Showing the difference in directions of protection and importance of the use of both terms in the respective jurisdictions will be sufficient for the purpose of this thesis.

⁵⁸ See e.g. Shaw, *Trade Marks and Unfair Competition* (1952), chapter six; McCarthy, *Trademarks and Unfair Competition* (1973), chapter 27; Pattishall/Hilliard, *Trade Identity and Unfair Trade Practices* (1974) chapter 8, § 8.4.

⁵⁹ Emmerich, *supra* note 42, at 74 (fn. 147).

CHAPTER II: "Public morals" in German Unfair Competition Law

1) The statutory situation in Germany

German unfair competition law is based on the *Gesetz gegen den unlauteren Wettbewerb* (*UWG - Act Against Unfair Competition*), the predecessor of which was the *Act To Fight Against Unfair Competition* of 1896⁶⁰. The latter was changed into the current version in 1909⁶¹ when, among other changes, § 1 with its general term "public morals" was added. Further regulation can be found in the *Zugabeverordnung* (*ZugabeVO - Regulation governing free gifts with sales*) of 1932⁶² and in the *Rabattgesetz* (*RabattG - Act on Discounts*) of 1933.⁶³ Of all these statutes, which are under the legislative authority of the federal parliament, the *UWG* has been subject to the most alterations and amendments in order to take into account the changing conditions and customs in business life. The comprehensive clause, § 1, however, was left unaffected.⁶⁴ In the scope of its application the consideration of changing habits and customs had been devolved upon the courts under the leadership first of the *Reichsgericht* and later of the *Bundesgerichtshof*, which in these days can look back to an almost 90 years long history of interpretation.

⁶⁰ *Reichsgesetz* of 27.05.1896, *RGBl.* I p. 145.

⁶¹ *Reichsgesetz* of 07.06.1909, *RGBl.* I p. 499.

⁶² *Verordnung* of 09.03.1932, *RGBl.* I p. 121.

⁶³ *Reichsgesetz* of 25.11.1933, *RGBl.* I p. 1011.

⁶⁴ See Schricker, *Entwicklungstendenzen im Recht des unlauteren Wettbewerbs*, *GRUR* 1974, 579, who points out that even without explicit alterations of the wording of the law unfair competition law has experienced substantial development.

Outside the scope of § 1 the *UWG* - among other regulation - essentially prohibits false and misleading statements and misrepresentations (§§ 3 ff.), the use of pyramid sales schemes (§ 6c), the announcement and realization of special sales (§ 7), corrupt practices (§§ 14-15), and the disclosure of trade secrets and the unauthorized use of entrusted templates, drawings, recipes and other models or technical instructions (§§ 17 ff.). The legal consequences of the different offences vary. While some of the provisions, such as §§ 4, 6c, 12, 17, 18 and 20, are criminal clauses and while § 6 provides for the possibility to impose a fine, the violation of all provisions gives the right to claim damages and to apply for an interlocutory or permanent injunction.

2) § 1 *UWG*

According to § 1 *UWG* someone can be held liable for damages and can be ordered to refrain from further actions when he - for the purpose of competing (b) - uses business practices (a) which violate “public morals” (c).

a) “Business practices”

§ 1 *UWG* does not prohibit unfair behaviour in general but only unfair ‘business practices’. This clarifies that the *UWG* only has the function to regulate one’s commercial activities whereas it is applicable neither for mere private activities nor for any administrative actions⁶⁵ According to the *Bundesgerichtshof* a ‘business practice’ is every action which serves - in any way - to promote one’s business, that is to say, every

⁶⁵ Emmerich, *supra* note 42, at 22.

independent participation in business affairs.⁶⁶ It follows that whenever a trader decides to participate in economic transactions only mere private bargains that are not made in the course of business (*i.e.* when the trader himself or herself is the last consumer)⁶⁷ and simple internal operations, which have no effects on actual or possible consumers or competitors⁶⁸ (such as instructions to employees), are excluded from the scope of § 1.

b) “For the purpose of competing”

Firstly, the *UWG* serves to protect the competitor, that is to say it regulates only commercial practices which have a particular impact on the interests of other competitors. That is why the application of § 1 requires an action with the object of competing. As to this requirement the *Bundesgerichtshof* demands that there has to be not only an act of competition - so to speak an “external” aspect - but also a corresponding intention to compete, or the “internal” side.⁶⁹ Accordingly it is not sufficient that the behaviour of one competitor has the effect of favouring his own selling to the disadvantage of another competitor; this result must also be the very goal the competitor pursues.⁷⁰ Thus, the act of competition and the corresponding intention to compete is only possible within the ambit of a “competitive relationship” between two or more competitors.⁷¹ However, as to

⁶⁶ *E.g.* BGHZ 19, 303; BGH, GRUR 1964, 209; BGH, NJW-RR 1993, 1064.

⁶⁷ BGH, NJW-RR 1993, 1064.

⁶⁸ BGH, NJW-RR 1993, 1064; OLG Koblenz, NJW-RR 1988, 558; Emmerich, *supra* note 42, at 22.

⁶⁹ *E.g.* BGH, NJW 1981, 2304; BGHZ 107, 42; BGH, NJW-RR 1990, 1184; BGH, NJW 1992, 3094.

⁷⁰ *E.g.* BGH, GRUR 1988, 39; BGHZ 107, 42.

⁷¹ *E.g.* BGHZ 107, 42; BGH, NJW-RR 1990, 1184.

the existence of a competitive relationship German courts tend to be very generous as it is not necessary that the competitors face each other in the same branch of business; a competitive relationship also exists if goods or services are offered which - according to the general attitude - may hinder each other's selling, even if their purchasers belong to different consumer groups (so called 'indirect competitive relationship')⁷². A competitive relationship has been assumed between the distributors of flowers and coffee⁷³, whisky and men's cosmetics⁷⁴ and between a broadcasting corporation and an organizer of entertainment shows.⁷⁵ In sum, a competitive relationship already exists, where the competitors - even if they are in different branches of business - offer their goods or services to the same consumer.

With respect to the required intention to compete German courts usually do not make high demands. It is (rebuttably) assumed when someone decides to start business⁷⁶, and it follows that it only serves to exclude scientific, religious and political activities from the scope of § 1, even if they do have a certain effect on the competition.⁷⁷

⁷² Emmerich, *supra* note 42, at 24.

⁷³ BGH, GRUR 1972, 553.

⁷⁴ BGHZ 93, 96.

⁷⁵ BGHZ 39, 356; BGH, NJW 1990, 3133.

⁷⁶ BGH, GRUR 1962, 36; BGH, GRUR 1962, 45.

⁷⁷ Emmerich, *supra* note 42, at 30-31; Burmann, *Zum Problem der Sittenwidrigkeit im Wettbewerb*, WRP 1972, 511; Nordemann, *supra* note 32, ("almost everything is controversial"); Ott, *supra* note 31, at 405 ("core issue"); Vogt, *Bedeutungsgehalt und Funktion der guten Sitten im Wettbewerbsrecht*, NJW 1976, 730 ("decades of discussions").

c) “Public morals”

A business practice with the object of competing is only prohibited if it violates “public morals”. What practices violate “public morals” and who is to define “public morals” have become the central questions of competition law in Germany.⁷⁸

aa) “Sense of decency of all just and right thinking people”

The formulation “public morals” in § 1 goes back to § 826 *BGB* (*Bürgerliches Gesetzbuch* (1896), *Civil Code*) which gives a claim in tort for damages caused by intentional, unconscionable injuries. It follows from the motives for its making that § 826 was intended to cover actions which contradict the “sense of decency of all just and right thinking people”⁷⁹. In the following period of almost 50 years this phrase had been used by the *Reichsgericht* in order to define the term “public morals”⁸⁰ so that it is not astonishing that the *Bundesgerichtshof* made this definition its own. However, as to § 1 the *Bundesgerichtshof* adopted the “sense-of-decency-phrase” with a slight modification: To judge on what “public morals” are the court refers to not only the “sense of decency of all just and right thinking people” but also - and more and more exclusively - of the involved business circles, that is to say of the “honest, reasonable and just thinking average

⁷⁸ Emmerich, *supra* note 42, at 43.

⁷⁹ *Motive* II, p. 727.

⁸⁰ *RGZ* 55, 373; *RGZ* 80, 221; *RGZ* 120, 148; *RGZ (GS)*, 150, 5. This “sense-of-decency-phrase” was also replaced by the expression “ruling people’s sense” (“*herrschendes Volksbewußtsein*”); e.g. *RGZ* 166, 318. See v. Godin. *Über den Verstoß gegen die wettbewerblichen guten Sitten*, *GRUR* 1966, 127, who, at 128, still refers to this expression.

businessman”.⁸¹ In addition, the *Bundesgerichtshof* thinks it important whether the act of competition is disapproved and regarded as intolerable by the general public⁸² and, in doing so, increasingly refers to the view of those whom the trader approaches.

bb) Interpretation and systematization

The ‘sense-of-decency-phrase’ used by the *Reichsgericht* and the *Bundesgerichtshof* - be it with reference to “all just and right thinking people”, be it with respect to the ‘honest, reasonable and just thinking average businessman’ - has met a lot of criticism which is partly of semantical, partly of philosophical-ethical and partly of methodical origin and which cannot be fully examined in this thesis.⁸³ Notwithstanding the latter it is obvious that § 1 and the general term ‘public morals’ need a more precise definition. This was to be done by the courts and has led to a vast range of case law which has become systematized by legal scholars and juridical writers. However, with systematizations one has to be careful. Regardless of how helpful a systematization of case law might be for lower courts and regardless of to what extent it leads to a better predictability of law⁸⁴, it certainly does not have the intention - the mere attempt would be bound to fail - to cover all thinkable and possible acts of competition and business practices. With different categories of unfair conduct in competition one has to keep in mind that the mere fact that a particular business action does not fall within one of the categories does not mean that it cannot be

⁸¹ *BGH, GRUR* 1955, 349; *BGH* in *Lindenmaier/Möhring (LM)*, § 1 *UWG* No. 31, No. 61, No. 71, No. 106; *BGHZ* 54, 190; *BGH, GRUR* 1960, 561; *BGH, GRUR* 1971, 318.

⁸² *BGHZ* 54, 190; *BGH, GRUR* 1971, 318; *BGHZ* 59, 319; *BGH, NJW* 1993, 3330.

⁸³ See *e.g.* Emmerich, *supra* note 42, at 48 ff.

⁸⁴ This is emphasised by Nordmann, *supra* note 32, at 627.

regarded unfair. The systematization only serves as a means of putting the immense variety of court decisions in some kind of order to make it clearer and more comprehensive. Hence, following the ordering of *Hefermehl* it has become common in German unfair competition law to classify unfair business practices into five different categories.⁸⁵ These categories are: Enticing customers (aaa), interference (bbb), exploitation (ccc), violation of the law (ddd) and disturbance of the market (eee).

aaa) Enticing customers

The influencing of consumers in order to extend the range of one's customers is the very nature of sales promotion and a significant part of competition. But this is permissible only as long as the competitor does not use methods which restrain the consumer's decision whether or not to purchase the offered product, which normally will be made on the ground of price and service comparisons.

(1) Misleading representation

The typical case where the attraction of customers becomes dishonest enticing occurs when the trader misrepresents his product, *e.g.* its quality, nature or origin, his own business or the business of a competitor. In this field the comprehensive clause of § 1 overlaps with the special provision of § 3 according to which any misleading information in competition is prohibited. For obvious reasons misleading information generally can be

⁸⁵ Baumbach/Hefermehl, *supra* note 51, *Einl. UWG*, annot. 160 ff. See discussion on the actual importance of this systematization Mayer-Maly, *Die guten Sitten als Maßstab des Rechts*, *JuS* 1986, 596, at 598.

regarded as contravening "public morals" so that in most cases a violation of § 3 automatically means a breach of § 1. Nevertheless, since § 3 only prohibits misleading information in the form of statements and descriptions, § 1 has a "completing function" insofar as it prohibits all other forms of deceptive information, for example, the deceiving suggestive influencing of consumers.⁸⁶ To these practices belongs for instance the so called "bait and switch tactics advertising" (" *Lockvogelangebot* ") which occurs in various forms, one of which describes the following situation: A product is offered at a very reasonable price in spite of the fact that it is either not available for this price at all⁸⁷ or available only in a totally insufficient quantity.⁸⁸ In this way the allegedly good offer does not really exist and is only used to attract customers to the business premises. The same applies to another form of "bait and switch tactics advertising": The competitor fixes a usually well known brand merchandise at a very low price in order to give the impression that his whole stock is offered that cheaply when it is not.⁸⁹ Here the misled customer is supposed to be encouraged to purchase other products too, which are fixed at a normal and often at an excessive price. In both cases the competitor counts on the customer's indolence insofar as he expects him, once attracted to his premises by the allegedly good offer, to buy other products also for reasons of laziness or time saving.⁹⁰

⁸⁶ Baumbach/Hefermehl, *supra* note 51, § 1 UWG, annot. 9. For details see Loewenheim's article, *supra* note 33.

⁸⁷ OLG Hamburg, *WRP* 1955, 150.

⁸⁸ BGH, *GRUR* 1982, 681; BGH, *GRUR* 1984, 593; BGH, *GRUR* 1985, 980; BGH, *GRUR* 1987, 52; BGH, *GRUR* 1987, 371; BGH, *GRUR* 1988, 311; BGH, *GRUR* 1988, 629; BGH, *GRUR* 1989, 609.

⁸⁹ Baumbach/Hefermehl, *supra* note 51, § 1 UWG, annot. 13.

⁹⁰ Lindacher, *Lockvogel- und Sonderangebote* (1979), at 5.

Another form of misleading customers occurs when the competitor labels his products with excessive prices in order to reduce them instantly and delude the customer into thinking that there is a special price concession.⁹¹

(2) Undue Pressure and Pestering

The category 'Enticing customer' also includes the constraint of customers. This kind of conduct in competition covers every effort to urge consumers to sign a contract by means of physical or psychological influence. Thus, § 1 *UWG* prohibits every kind of threat or pressure. Another disallowed way of enticing customers that is similar to undue pressure, is to pester consumers by means of every sort of obtrusive advertising or sales promotion which goes beyond the tolerable mark of annoyance to such an extent that a calm and objective verification becomes impossible and the customer only signs the contract in order to put an end to the pestering.⁹² This particularly applies to cases in which customers are individually approached by a sales person or agent on a public street⁹³, at a railway station or other public transport vehicles⁹⁴ as well as to cases of undesirable telephone calls⁹⁵, unasked-for advertisements through telex, if this does not happen within an existing business connection⁹⁶, and to cases where unordered goods are sent to

⁹¹ *OLG Hamburg, WRP* 1970, 184; Baumbach/Hefermehl, *supra* note 51, § 1 *UWG*, annot. 46.

⁹² Baumbach/Hefermehl, *supra* note 51, § 1 *UWG*, annot. 51.

⁹³ *BGH, GRUR* 1960, 431; *OLG Stuttgart, NJW* 1955, 147.

⁹⁴ *OLG Hamburg, BB* 1970, 1275.

⁹⁵ *BGH, GRUR* 1970, 523; *BGH, GRUR* 1989, 753; *BGH, GRUR* 1990, 281.

⁹⁶ *OLG Hamm, GRUR* 1990, 689; *BGH, NJW-RR* 1991, 160.

customers.⁹⁷ The *Bundesgerichtshof* also regards it as pestering if persons involved in an accident are asked to enter into a contract for repairs⁹⁸, a contract for renting a car⁹⁹ or a contract for towing away the wreck¹⁰⁰ when the offer is made on the street shortly after the accident and without any request on their part. These decisions are in line with a judgement in which a sales call with which a gravestone was offered four weeks after the relative's passing-away, was considered to contravene fair trade practices.¹⁰¹

(3) Temptation

The final major group of unfair practices within the category of "Enticing customers" is the so called "temptation" of customers. This group comprises the wide range of cases in which the prospect of a further profit if he or she signs the contract is held out to the customer. In doing so, the competitor does not try to convince the customer about the quality and the price of his products or services, which is regarded the very nature of fair competition, but uses an unobjective means, namely, the promise to grant a special benefit.¹⁰² The forms of temptation are manifold. The presentation of sales promotion gifts, for example, becomes dishonest if its "tempting effect" is so dominant that the consumer's decision to enter into a contract is not made on the ground of his or her idea of good prices and the quality of the product but rather to benefit from the advantage of

⁹⁷ *BGH, GRUR* 1959, 277; *BGH, GRUR* 1960, 382; *BGH, GRUR* 1966, 47.

⁹⁸ *BGH, GRUR* 1975, 264.

⁹⁹ *BGH, GRUR* 1975, 266; *OLG Nürnberg, BB* 1968, 1448.

¹⁰⁰ *BGH, GRUR* 1980, 790; *OLG Nürnberg, BB* 1968, 1448.

¹⁰¹ *BGH, GRUR* 1971, 317.

¹⁰² Baumbach/Hefermehl, *supra* note 51, § 1 *UWG*, annot. 85.

the gift¹⁰³. Also, the "touting" of consumers in form of individual transportation to the trader's premises is regarded as unfair.¹⁰⁴ The *Bundesgerichtshof* has even gone further by ruling that a trader acts dishonestly if he appeals to the environmental awareness of his customers and promises to compensate for the costs for buses or train of the local traffic system in case one of his products is purchased if this method is exclusively in the trader's interest and his alleged interest in environmental protection has no objective connection with his offered goods.¹⁰⁵ The group "temptation of customers" also includes the so called "covered package deals" which occur when several products are offered at a total price without showing the individual prices of each single product.¹⁰⁶ The unfair moment is supposed to lie in the fact that the customer who does not know the individual prices is not able, even roughly, to determine the value of the joint offered goods or services¹⁰⁷ and thus is likely to be cheated.

Furthermore, a trader violates "public morals" if he or she lures consumers by taking advantage of their passion for gambling and in conjunction with the sales of his or her products. This can be done by organizing gambling games or competitions the participation in which depends on the purchase of the trader's goods. The underlying idea

¹⁰³ BGH, GRUR 1959, 546; BGH, GRUR 1967, 255; BGH, GRUR 1971, 163; BGH, GRUR 1974, 346; BGH, GRUR 1984, 464; BGH, GRUR 1986, 820; BGH, GRUR 1989, 367. The presentation of free gifts which depends on the conclusion of a contract is already prohibited by virtue of § 1 *ZugabeVO*. However, this does not apply to those cases in which the granting of the gift is not supposed to have an influence on the customer, which is expressed in § 1 *ZugabeVO* in the form of precisely described exceptions to the rule.

¹⁰⁴ BGH, GRUR 1972, 605.

¹⁰⁵ BGH, GRUR 1991, 543.

¹⁰⁶ Baumbach/Hefermehl, *supra* note 51, § 1 UWG, annot. 127.

¹⁰⁷ BGH, GRUR, 1962, 418.

is that a trader must not be allowed to make use of the 'human frailty' for gambling to sell his or her products. A trade practice is unfair, therefore, when a trader tempts the customer to buy his or her wares or services by offering the opportunity to win prizes and thus by causing that the consumer's decision to be based on the desire to gamble and to win instead of on a quality-price-comparison.¹⁰⁸

bbb) Interference

The second category of business actions violating 'public morals' is titled 'interference' which means every kind of interference with respect to sales, sales promotion or the competitor's business as well as boycott, discrimination, displacement or cut-throat competition and disallowed comparative advertisement.

(1) Interference with respect to sales, sales promotion and the competitor's business

The attempt to win new customers in order to increase one's own sales is an inherent element of competition. In most cases such an increase in sales has an unfavourable effect on the competitors' business as it is likely to lead to a decline in sales on their part. Yet, this is the very meaning of competition and gives no cause for concern. But 'public morals' can be violated if a trader not only tries to convince or persuade the customers that his goods or services are the best available in the market-place but also interferes with

¹⁰⁸ *BGH, GRUR* 1973, 476; *BGH, WRP* 1976, 100; *BGH, GRUR* 1990, 616. This form of unfair behaviour is not to be mistaken with the organization of competitions in order to evoke the consumer's interest for his products without connecting the participation in the game with the purchase of his goods. This form of sales promotion is not considered to be unfair.

the competitors' businesses in order to weaken their position and to strengthen his own. Such a disallowed interference, for example, is the calculated interception of customers of a particular competitor by distributing promotional material or by any other kind of sales promotion in the immediate vicinity of the competitor's business premises.¹⁰⁹ The unconscionable aspect of such an interception lies in the fact that it makes it impossible for the affected trader to offer his wares or services to his customers which prevents an objective comparison as to the goods or services and their prices.¹¹⁰ Another example of excluding the possibility of offering wares to the public is the removal of competing products from the market-place¹¹¹ either by buying them from a wholesale distributor or taking them in payment for the delivery of one's own products.¹¹² Furthermore, it has been regarded as an interference when a trader advertises in a telephone book on the page where his or her competitor is listed, although his or her name does not begin with a letter which is normally required for this page¹¹³, or when other wares or services are passed-off as and for those ordered or requested, which is the case when a customer orders a particular product and the vendor delivers something different in the hope that the customer will not notice the difference or at least not complain.¹¹⁴ A case in which a trader filled a bottle labelled with a trade-mark of a competitor with a different liquid on the

¹⁰⁹ Baumbach/Hefermehl, *supra* note 51, § 1 UWG, annot. 187.

¹¹⁰ Baumbach/Hefermehl, *ibid.*; e.g. BGH, GRUR 1960, 433; BGH, GRUR 1963, 201; BGH, GRUR 1986, 547; OLG Hamm, WRP 1973, 538; OLG Koblenz, WRP 1974, 283.

¹¹¹ E.g. BGHZ 3, 342; OLG Düsseldorf, GRUR 1950, 191.

¹¹² Baumbach/Hefermehl, *supra* note 51, § 1 UWG, annot. 189.

¹¹³ KG, JW 1923, 723; OLG Düsseldorf, NJW 1956, 64.

¹¹⁴ E.g. BGH, GRUR 1966, 564; BGH, GRUR 1965, 361; BGH, GRUR 1965, 607. There is also a violation of § 3 UWG if the customer explicitly has been told that he obtains the ordered goods, although he did not.

assumption that the customer would believe that he or she is receiving the liquid described on the label¹¹⁵ is an example of this kind of passing-off.

Another way to interfere with the sales promotion of a competitor is to take away the effect of his advertisement. The easiest and coarsest form of this kind of conduct is to destroy advertising posters or to stick something over them. A more subtle form is the use of a competitor's non registered trade-mark to cause confusion in the market-place or to dilute the good name of a well-known brand.¹¹⁶ Furthermore, every kind of interference with the competitor's firm, be it with respect to operational procedures, or with regard to staff relation, is prohibited under § 1 *UWG*. That is why the removing or defacing of serial numbers which have been attached to the competing products in order to facilitate later material or manufacture control has been considered to violate "public morals", especially when it is likely to have a negative effect on the after-sales service the competitor offers.¹¹⁷ Also prohibited is the disturbance of the internal peace in a competitor's firm by stirring the employees up against their employer or by spying out certain production equipment or operating facilities.¹¹⁸

¹¹⁵ *OLG Celle, MuW* 1933, 88.

¹¹⁶ Baumbach/Hefermehl, *supra* note 51, § 1 *UWG*, annot. 203. An efficient protection of registered trade-marks is granted by §§ 14 ff. *Markengesetz (Trade-marks Act)*.

¹¹⁷ *BGH, GRUR* 1978, 364; *OLG Koblenz, GRUR* 1978, 470; *OLG Hamburg, NJW-RR* 1987, 556; *OLG Hamburg, GRUR* 1990, 288; *OLG Karlsruhe, NJW-RR* 1987, 737.

¹¹⁸ Baumbach/Hefermehl, *supra* note 51, § 1 *UWG*, annot. 218, 219. But § 1 *UWG* is not applicable when the object of the espionage is a trade secret because those are already protected by §§ 17 - 20a *UWG*.

(2) Displacement and cut-throat competition

One of the most significant reasons for the popularity of a product is its price. It is therefore every trader's right to offer his or her wares as cheaply as he or she wants in order to widen the range of customers. However, although underselling is basically not prohibited¹¹⁹, there are limits where it is used only as a means of ruining or displacing a particular competitor.¹²⁰ This being so, the question whether or not dumping constitutes unfair competition depends on the object which is pursued. Underselling for the mere purpose of ruining a competitor is never allowed. Thus, the question is whether an underselling is simply part of a special sales strategy and, being so, of no concern, or whether it is a measure to displace a competitor. The *Bundesgerichtshof* answers this question by seeing an unfair cut-throat competition to be indicated when wares are continually or repeatedly offered at a price which is below the original cost of the product¹²¹, especially if this offer is meant to hit a particular competitor.

(3) Boycott and Discrimination

Another kind of interference is the boycott, which is the organized blockade of a trader by means of either not entering into transactions with him or her or breaking off business

¹¹⁹ BGHZ 28, 60; BGHZ 28, 396; BGHZ 44, 302; BGHZ 46, 175; BGH, GRUR 1960, 331; BGH, GRUR 1966, 620; BGH, JuS 1970, 94 No. 8; BGH, GRUR 1979, 322; BGH, NJW 1983, 569; BGH, GRUR 1984, 206; BGH, JuS 1986, 736 No. 11; BGH, NJW 1990, 2468; BGH, NJW 1992, 1817; BGH, NJW 1993, 1010.

¹²⁰ BGH, JuS 1986, 736 No. 11; BGH, GRUR 1985, 883; BGH, NJW 1990, 2468; BGH, NJW 1992, 1817. See Lehmann, *Schutz des Leistungswettbewerbs und Verkauf unter Einstandspreis*, GRUR 1979, 368, at 377 ff. Further bounds for market-dominating enterprises can be found in §§ 22 (4), (5), 26 (2), (3), 37a (3) *GWB*.

¹²¹ BGH, GRUR 1979, 323; BGH, GRUR 1983, 125.

relations. A boycott requires at least three persons: first, the one who encourages others to block a particular trader; secondly the addressee who follows this call; and thirdly, the trader who is affected by this action. Thus, a boycott is a means of restraining the competition by excluding a particular competitor from the trade which, of itself, makes it contrary to fair business practices.¹²²

Another way of violating "public morals" in commercial matters is the discrimination, for example, based on the unjustified unequal treatment of a person in the course of trade. Nevertheless, one has to bear in mind that unfair competition law also follows the principle of liberty to contract. Since this is so, every trader has the right to establish contractual relations and to break off business connections with the person he chooses.¹²³ This liberty, however, faces limits where the trader meets a statutory obligation to conclude a contract. Those obligations are rare; one can find them mainly in the field where public utilities supply the community with essentials such as power, gas or water.¹²⁴ For market-dominating enterprises the obligation to conclude a contract can also result from their liability for damages pursuant to § 26 (2) *GWB*, which contains a prohibition against discrimination.

¹²² *BGH, GRUR* 1960, 331, at 335; *BGH, GRUR* 1980, 242; *OLG Düsseldorf, GRUR* 1984, 131, at 134; see Emmerich, *supra* note 42, at 95.

¹²³ *OLG Celle, BB* 1971, 1120.

¹²⁴ *E.g.* § 6 *Energiewirtschaftsgesetz* (Act for the Promotion of the Fuel and Electricity Industries) or § 22 *Personenbeförderungsgesetz* (Passenger Transport Act).

(4) Comparative advertisements

Since false and misleading representations as such violate "public morals", comparative advertisements only raise controversial questions in terms of business ethics if the statement in the advertisement is true. While the *Reichsgericht* tended to be very strict even as to true statements and held comparative advertisements to be violating "public morals" if they referred to a specific trader or to a particular group of competitors¹²⁵ and while the *Bundesgerichtshof* at first stuck to the position of its predecessor¹²⁶, the latter eventually acknowledged the right of a trader to refer to the competitor's wares in a critical way provided that the trader has a sufficient cause for the comparison and his criticism stays within the ambit of what is necessary.¹²⁷ The following have been regarded as sufficient causes for a comparison: the counter comparison¹²⁸, the explicit request of a customer to be informed of the nature and quality of competing products¹²⁹, the correction of misconceptions¹³⁰ and the need to inform the general public of a technical progress

¹²⁵ *RG, GRUR* 1927, 486; *RG, GRUR* 1931, 1299; *RG, GRUR* 1934, 473; *RG GRUR* 1937, 230; *RG, GRUR* 1939, 386; *RG, GRUR* 1940, 53; *RG, GRUR* 1942, 364. On the other hand, the comparative advertizing as to procedures or systems which do not refer to a specific competitor has always been regarded a fair means of competing; *BGH, GRUR* 1952, 416; *BGH, GRUR* 1953, 37; *BGH, GRUR* 1958, 553.

¹²⁶ *BGH, GRUR* 1952, 417; *BGH, GRUR* 1953, 293; *BGH, GRUR* 1959, 488; *BGH, GRUR* 1960, 384; *BGH, GRUR* 1961, 237.

¹²⁷ *BGH, GRUR* 1962, 45.

¹²⁸ *BGH, GRUR* 1954, 41; *BGH, GRUR* 1962, 48.

¹²⁹ *BGH, GRUR* 1957, 24; *BGH, GRUR* 1959, 49; *BGH, GRUR* 1960, 387; *BGH, GRUR* 1986, 220.

¹³⁰ *BGH, GRUR* 1960, 385; *BGH, GRUR* 1961, 288.

which cannot be described by other means than by comparing the trader's wares with those of his competitors.¹³¹

ccc) Exploitation

Making use of the achievements of others and benefiting from their abilities, skills, and efforts is not an unfamiliar element of competition. However, the adoption of others achievements is limited, especially in the field of exclusive rights in registered trade-marks, trade-names and patents. Yet, the protection of exclusive intellectual property rights is granted by special provisions in different acts.¹³² As has already been mentioned, it follows from the very existence of a special protection of exclusive rights in creative or innovative achievements that commercial activities which do not infringe these rights essentially are supposed to be allowed or, in other words, unfair competition law must not prohibit what is allowed under special acts for the protection of intellectual property.¹³³ That is why the German unfair competition law has to view the adoption of competitors' achievements in a different way from the various acts for the protection of intellectual property. In doing so, unfair competition law does not protect a property right on behalf of the owner or the general public but pays attention to the way someone benefits from the achievements of a competitor in the market-place in a way that itself contravenes the idea of competition.¹³⁴ From this point of view the adoption of foreign achievements has been regarded as unfair

¹³¹ *BGH, GRUR* 1952, 418; *BGH, GRUR* 1958, 345; *BGH, GRUR* 1961, 90, *BGH, GRUR* 1961, 240.

¹³² See fn. 46-49.

¹³³ *BGH, GRUR* 1966, 97; *BGH, NJW* 1967, 723; Emmerich, *supra* note 42, at 160.

¹³⁴ Baumbach/Hefermehl, *supra* note 51, § 1 *UWG*, annot. 407.

only if it was likely to lead to a confusion as to the source and only if the imitator could be accused of not having taken reasonable measures to prevent the likelihood of confusion.¹³⁵

On the other hand, the likelihood of confusion is not necessary if the imitator has obtained the knowledge which is necessary to imitate his competitors' wares or services by devious means.¹³⁶ Always unfair is the exploitation of the reputation of a competitor's product by using it as some kind of "stage setting" for one's own products, or a means of evoking the consumer's interest and giving the impression that both products meet the same quality standard.¹³⁷ Another form of exploitation in terms of making use of the achievements of others is the persuasion of the employees of a competitor to break their employment contract in order to hire them for the own business and to benefit from their experience.¹³⁸

ddd) Violation of the law

It is contrary to the whole object of competition that a trader get ahead of his competitors by violating statutory or contractual obligations with which the rest of the competitors comply.¹³⁹ In other words, it is not enough that someone can offer his or her wares or services at a reasonable price and of better quality; he or she has to achieve this by means of honest and legal actions. It follows that the unfairness of the violation of the law does

¹³⁵ Baumbach/Hefermehl, *supra* note 51, § 1 UWG, annot. 428, 429.

¹³⁶ BGH, GRUR 1961, 40.

¹³⁷ BGH, GRUR 1983, 248.

¹³⁸ BGH, GRUR 1956, 273. On the other hand, the mere fact that a trader takes advantage of a breach of contract or that he persuades an employee to terminate the employment duly is generally not considered to be unfair; RG, GRUR 1936, 994; RG, GRUR 1938, 137; BGH, GRUR 1956, 237; BGH, GRUR 1957, 219.

¹³⁹ Baumbach/Hefermehl, *supra* note 51, § 1 UWG, annot. 567.

not lie in the mere violation but in the fact that the trader gets a better position in the market-place by his own infringement and by benefiting from the competitors' obedience to the law.¹⁴⁰

(1) Violation of statutory obligations

Not every violation of statutory provisions is necessarily unfair and contrary to "public morals" as defined in § 1 *UWG*¹⁴¹; the business method in question must have some impact on the competition. However, some provisions protect the general public and express some basic values, such as public health or the administration of justice. German courts tend to consider business practices violating these provisions *eo ipso* to be contrary to "public morals" for the mere reason that they contradict the ethical feeling of the general public.¹⁴² Furthermore, the infringement of provisions regulating and protecting the competition as an institution are generally held to be contrary to "public morals"¹⁴³, whereas the infringement of "value-free" (or "morally neutral") provisions usually violates § 1 *UWG* only when special circumstances render the conduct unfair.¹⁴⁴ These circumstances include, for example, the intention, the motives and the way the trader proceeds. Thus, intentional, continual and systematic ignorance of statutory provisions in

¹⁴⁰ *BGHZ* 45, 2; *BGH, GRUR* 1957, 559; *BGH, GRUR* 1960, 195; *BGH, GRUR* 1965, 375.

¹⁴¹ *BGH, GRUR* 1957, 558; *BGH, GRUR* 1960, 195.

¹⁴² *Baumbach/Hefermehl, supra* note 51, § 1 *UWG*, annot, 573; *BGHZ* 22, 180; *BGHZ* 44, 209; *BGH, GRUR* 1961, 418; *BGH, GRUR* 1965, 375; *BGH, GRUR* 1970, 559.

¹⁴³ *BGH, GRUR* 1978, 446.

¹⁴⁴ *BGH, GRUR* 1963, 583; *BGH, GRUR* 1967, 37; *BGH, GRUR* 1970, 181; *BGH, NJW* 1981, 2519; *BGH, NJW* 1990, 578; *BGH, NJW* 1990, 3199; *BGH, NJW* 1994, 54. See Sack, *supra* note 30, at 1.

order to get a more favourable position in the market-place has always been considered unfair.¹⁴⁵ However, one has to keep in mind that the unfair element of any violation of the law - at least in terms of business ethics - is the disturbance of a *par condicio concurrentium*, i.e. the same conditions for every competitor. That is why the advantage pursued by an unfair trader needs to be achieved over competitors who are bound by the same provisions.¹⁴⁶ A typical example of a statutory obligation that binds all members of a profession is the restraint on advertising for physicians and dental or veterinary surgeons¹⁴⁷, the infringement of which is generally regarded as contrary to 'public morals'.¹⁴⁸

(2) Violation of contractual obligations

Even the mere non-performance of a contractual obligation can breach § 1 *UWG*. The violation of agreements about resale price maintenance¹⁴⁹ or covenants for restraints on the freedom to compete¹⁵⁰, which typically occur in employment contracts, are good examples.

¹⁴⁵ *BGH, GRUR* 1957, 559; *BGH, GRUR* 1960, 243; *BGH, GRUR* 1966, 323; *BGH, GRUR* 1973, 655; *BGH, GRUR* 1974, 281; *BGH, GRUR* 1981, 142.

¹⁴⁶ Baumbach/Hefermehl, *supra* note 51, § 1 *UWG*, annot. 603.

¹⁴⁷ See § 21 (1) *Muster-BerufsO für die deutschen Ärzte* (Model Occupational Regulations for German Physicians); § 1 (3) *ZahnheilkundeG* of 16.04.1987 (*BGBL.* I p. 1225) (Act on Dentistry).

¹⁴⁸ Baumbach/Hefermehl, *supra* note 51, § 1 *UWG*, annot. 603.

¹⁴⁹ The condition is that these agreements are valid under the *GWB*.

¹⁵⁰ An enumeration of different kinds of restraints of competition is provided, e.g., by Buß, *Wettbewerbsverbote und konkurrierende Erwerbstätigkeit des Ehegatten*, Diss. Trier 1995.

ff) Disturbance of the market-place

The last category of business actions violating "public morals" covers methods which are likely to endanger the very existence of competition by removing the principle of supply and demand.¹⁵¹ In this field of application § 1 *UWG* overlaps with provisions of the *GWB* (*Restraint of Competition Act*), especially with § 22 (4) *GWB* which gives the antitrust division special authority if a company misuses its market-dominating position. In most cases such a behaviour will already be covered by one of the above mentioned categories, so it follows that the "disturbance of the market" has a relatively narrow scope of application. Nevertheless, a disturbance can be assumed if a trader causes an obstruction of the market by supplying masses of free wares which makes it impossible for his competitors to take part in the competition at all.¹⁵² This behaviour carries the more weight the more likely it leads to the danger that the customer will get accustomed to the given wares and will not - in the present or future - judge the offers by the competitors on the grounds of price and quality comparisons.¹⁵³ This being so, it has been held unfair that a trader distributed baby dairy food free to almost 80 % of all mothers in Germany and in doing so met the demand for this product for 5 to 6 days.¹⁵⁴

¹⁵¹ Baumbach/Hefermehl, *supra* note 51, § 1 *UWG*, annot. 771.

¹⁵² *BGHZ* 23, 375, *BGH*, *GRUR* 1957, 363.

¹⁵³ *BGHZ* 43, 284.

¹⁵⁴ *OLG München*, *BB* 1966, 513.

4) Summary and analysis

Looking at all these different categories one has to be reminded of the fact that the whole adjudication of the courts is founded on one single legal basis. Keeping in mind that the courts' judgements are usually more varied and sophisticated in details than can be portrayed here, the tremendous importance of § 1 *UWG* and its term "public morals" becomes obvious.

Moreover, by relying on the judiciary's ability to take into account new forms of conduct in trade and commerce the legislator allowed - and ultimately confirmed - a change of the scope of protection as the result of the "judicial legislation". First of all, § 1 *UWG* serves to protect the competitor by requiring an action with the object of competing, that is to say, an action that is likely to have some impact on the interests of other traders. Accordingly, unfair competition law had originally been understood as a means of protecting only the competitor against unfair trade practices (so-called "*individualrechtliche Auffassung*" - "individual dimension approach")¹⁵⁵ And yet, the wide scope of the application of § 1 *UWG* has shown that this provision certainly does not only protect the competitors alone. Protection is granted for competitors as well as for consumers and the general public. This shift from the "individual dimension approach" to a

¹⁵⁵ For details, see Nastelski, *Schutz der Allgemeinheit im Wettbewerbsrecht*, GRUR 1969, 322; Samwer, *Verbraucherschutz und Wettbewerbsrecht*, GRUR 1969, 326, at 327; Sack, *Sittenwidrigkeit, Sozialwidrigkeit und Interessenabwägung*, GRUR 1970, 493; Kisseler, *supra* note 18; Burmann, *Zur Problematik eines wettbewerblichen Verbraucherschutzes*, WRP 1973, 313; Schricker, *supra* note 64; Lindacher, *Grundfragen des Wettbewerbsrechts*, BB 1975, 1311.

so-called "social dimension approach" ("*sozialrechtliche Auffassung*") that also takes into consideration interests of consumers and the general public was introduced by the judiciary. It was the *Reichsgericht* which in 1928 for the first time stated that the prevention of unfair trade practices is expedient in the public interest.¹⁵⁶ Consequently, in 1936 the *Reichsgericht* began to take also the public interest into consideration when it interpreted and specified the term "public morals" in § 1 *UWG*.¹⁵⁷ In doing so, it laid the foundation for a more diversified interpretation of this provision that ultimately led to the rise of the "social dimension approach" and the development of the above-portrayed categories of interpretation and specification.

An inherent feature of the "social dimension approach" is that the protection for competitors, consumers and the general public is granted in two different ways: directly and indirectly. It is obvious that the interdiction of unconscionable business methods falling into the category "interference" and "exploitation" pursues the protection of competitors against unfair practices which aim directly at their businesses and, in doing so, are likely to cause harm. In the same way, it is not difficult to understand that the prohibition of misleading representation, undue pressure, pestering and temptation is a means of protecting the consumer against overambitious traders. And finally, the protection of competition as an institution and a cornerstone of our economic system and the consideration of ethical feelings of the public in judging infringements of provisions

¹⁵⁶ RGZ 120, 47, at 49; see Schwartz, *Verfolgung unlauteren Wettbewerbs im Allgemeininteresse*, GRUR 1967, 333; Nastelski, *supra* note 155.

¹⁵⁷ RGZ 128, 330, at 343; see Nastelski, *supra* note 155.

which express some basic values can easily be seen as a means of protecting the general public against the elimination of a well-functioning market and against moral decline in trading practices.¹⁵⁸

And yet, every interpretation of § 1 *UWG* aiming at the protection of competitors is simultaneously a consumer protection decision and every judgment which guards the consumer against molestation and temptation simultaneously protects competitors against unfair methods which enable its users to get ahead of them. This is so because the protection of competitors against devious and unfair practices eventually results in ensuring the existence of a competition in performance or, in other terms, the elimination of every unfair element in trade and commerce necessarily leads to a consumer's decision that is essentially made on the grounds of his or her ideas of good quality and reasonable prices of the wares or services offered. And in fact, this very aspect has increasingly been stressed in some judgments of the *Bundesgerichtshof*¹⁵⁹ and is often considered the essential content and very nature of fair competition.¹⁶⁰ Giving weight to the consumer's

¹⁵⁸ See e.g. Kraft, *Die Berücksichtigung wirtschaftspolitischer und gesellschaftspolitischer Belange im Rahmen des § 1 UWG*, *Festschrift für Bartholomeyczik* (1973), 223 at 229 ff.

¹⁵⁹ BGHZ 15, 365; BGHZ 34, 270; BGHZ 51, 242.

¹⁶⁰ See Nordemann, *supra* note 32, at 631; Ulmer, *Der Begriff des "Leistungswettbewerb" und seine Bedeutung für die Anwendung von GWB und UWG-Tatbeständen*, *GRUR* 1977, 368. But see also the criticism by Emmerich, *supra* note 28, at 56 where the learned author points out that this kind of fair competition is described by the German term "*Leistungswettbewerb*" (competition governed by and based on the individual performance as to quality and price of the product) which is almost as imprecise as the term "*gute Sitten*" so that one might argue that one general term has been replaced by another.

unaffected and uninfluenced decision is also the very approach for considering molestation, undue pressure, temptation and misrepresentation as unfair and, in doing so, it seems that the intended protection of traders has basically become a consumer protection issue which only reflexively defends the competitors against traders who pursue their goals by devious means to the disadvantage of the honest competitors.

For the protection of the general public one can argue that protection of the individual consumer is at the same time a protection of the general public. In addition, the *Bundesgerichtshof*, in particular, increasingly asks whether a business practice is disapproved or found intolerable by the general public. Thus, the views and ideas of the general public have become an essential element in unfair competition cases and nowadays one can say that a business method violates "public morals" not only if it is contrary to the sense of decency of the honest, reasonable and just thinking average businessman but also if it is disapproved by the general public even if the involved business circles would tolerate this practice.¹⁶¹

Interestingly, this shift from the individual dimension approach to a social dimension approach, *i.e.* from an approach that focuses only on the interest of competitors to an approach that takes into account the need to protect consumers and the general public, was ultimately confirmed by the legislator, in 1965 when § 13 (1)(a) *UWG* (which is now § 13 (2) 3) was amended. Until then § 13 (2) *UWG* regulating, who is entitled to sue in

¹⁶¹ See Emmerich, *supra* note 42, at 45.

case of the violation of "public morals", granted the right of action only to traders who are dealing with the same kinds of products to associations which represent a considerable number of those traders, provided that the business method in question is likely to have some profound negative effect on the competition, and to Chambers of Industry and Commerce or Chambers of Handicrafts. The new provision extended the right of action to associations whose purpose is to represent the consumers by advising and informing them provided that the allegedly unfair business practice interferes with essential interests of the consumers.

CHAPTER III: "Honest practices" in Canadian Unfair Competition Law

1) General

a) Federal statutory regulation

As mentioned before, Canada's adherence to the *Union Convention* of Paris of 1883 for the Protection of Industrial Property obliges her by Article 10*bis* subsection 1 to assure effective protection against unfair competition, *i.e.* dishonest practices in industrial or commercial matters. Since treaties and conventions do not become part of Canadian local law until they are embodied in legislation¹⁶², this basic statement had to be transferred into Canadian Law. One of the first implementations had been paragraph 11(c) of the *Unfair*

¹⁶² Fox, *The Canadian Law of Trade Mark and Unfair Competition*, 3rd edition (1972), at 13; *California Fig Syrup Co.'s Trade Mark* (1888), 6 R.P.C. 126; *Walker v. Baird* [1892] A.C. 491 (J.C.P.C.).

Competition Act.¹⁶³ This subsection, like its 'international counterpart', was very broadly stated in that no person should 'adopt any (...) business practice contrary to honest industrial or commercial usage' in Canada. This formulation was adopted by the *Trade Marks Acts* of 1953¹⁶⁴ and is also the wording of paragraph 7(e) of the *Trade-marks Act*

¹⁶³ R.S.C. 1952, ch. 274. It should be noted that in spite of a reference to the *Convention* in the interpretation section and in spite of the almost identical wordings in section 10bis and paragraph 7(e), the Supreme Court of Canada stated that 'there is nothing in the Trade-marks Act of 1953 to indicate that it was passed in implementation of the ...[Union] Convention [of Paris]'; *MacDonald v. Vapour Canada Ltd.* (1976), *supra* note 38, at 32. This assessment is rather surprising as the Supreme Court in *S. & S. Industries Inc. v. Rowell* (1966), 48 C.P.R. 193, at 197 stated that section 11 of the *Unfair Competition Act*, the successor of which became section 7 of the *Trade-marks Act* of 1953, was based upon Article 10bis of the *Convention*. In doing so, the Supreme Court adopted the view taken by the Exchequer Court which in two cases - *A.C. Spark Plug Co. v. Can. Spark Plug Service*, [1935] 3 D.L.R. 84, at 95; and *Kitchen Overall & Shirt Co. v. Elmira Shirt & Overall Co.*, [1937] 1 D.L.R. 7, at 9 - stated that section 11 'virtually enacte[d] one of the provisions of the Convention' and was 'intended to give legal effect [...] to Article 10bis of the [...] Convention'. The Supreme Court's assessment in the *MacDonald* case also seems to contradict *Eldon Industries Inc. v. Reliable Toy Co. Ltd. and National Sales Incentives Ltd.* (1964), 44 C.P.R. 239, where, at 257, the Ontario High Court of Justice stated that paragraph 7(e) 'is passed really pursuant to art. 10 of the [...] Convention'. The judgment of the Supreme Court of Canada, however, needs to be seen in the context. The Supreme Court had to deal with the question of the constitutional validity of section 7 and to answer whether or not this provision could be supported as federal legislation in implementation of an international obligation. Although in the *Labour Convention Case (A.-G. Canada v. A.-G. Ontario)*, [1937] 1 A.C. 326, at 352) the J.C.P.C. held that the mere fact that international obligations were to be fulfilled had no impact on the division of powers provided by sections 91 and 92 of the *British North America Act, 1867*, this question was controversial at the time of the judgment, as there seemed to be a certain willingness to reconsider this decision. Considering that an affirmative answer would have had a far-reaching impact on the constitutional division of powers, the Supreme Court's hesitation to uphold the federal legislation only on the grounds of Canada's obligation under the *Convention* becomes understandable. The Supreme Court therefore held that the exercise of a federal legislation based on Canada's international involvements must by no means be left open to inference but rather need to be explicitly manifested in the implementing legislation itself.

¹⁶⁴ R.S.C. 1970, ch. T-10, paragraph 7(e).

which is in force today.¹⁶⁵ To specify this broad statement section 7 refers to an enumeration of unfair practices such as false or misleading statements tending to discredit the business of a competitor, directing public attention to wares, services or business in such a way as to cause confusion in Canada, passing-off other wares or services as and for those ordered, and finally making use of any false description that is likely to mislead the public as to the character, quality, quantity, composition, geographical origin and the mode of the manufacture, production or performance.¹⁶⁶

However, the efficiency of provisions intended to regulate the behaviour of competitors not only depends on the extent to which competition exists but also on the very existence of this competition. The protection of competition was accomplished first by section 498

¹⁶⁵ *Trade-marks Act* of 1985, R.S.C. 1993, ch. T-13.

¹⁶⁶ Section 7 of the *Trade-marks Act* reads:

No person shall

- (a) make a false or misleading statement tending to discredit the business, wares or services of a competitor;
- (b) direct public attention to his wares, services or business in such a way as to cause or be likely to cause confusion in Canada, at the time he commenced so to direct attention to them, between his wares, services or business and the wares, services or business of another;
- (c) pass off other wares or services as and for those ordered or requested;
- (d) make use, in association with wares or services, of any description that is false in a material respect and likely to mislead the public as to
 - (i) the character, quality, quantity or composition,
 - (ii) the geographical origin, or
 - (iii) the mode of the manufacture, production or performance of such wares or services;
 or
- (e) do any other act or adopt any other business practice contrary to honest industrial or commercial usage in Canada.

of the *Criminal Code*¹⁶⁷, the successor of which became section 32 of the *Combines Investigation Act*.¹⁶⁸ Although the latter section essentially dealt with the investigation of combines, monopolies, trusts and mergers, it also focused on the question of how traders should behave in competition. For example, prohibitions included misrepresentations of the ordinary price¹⁶⁹ and the publishing of false advertisements¹⁷⁰, as well as the attempt, by threat, promise or other means, to require or induce other persons to resell an article to conditions set up by the trader¹⁷¹, and the refusal to sell an article to this person for the mere reason that he or she has refused to resell the article under the required conditions.¹⁷²

In 1986 the *Combines Investigation Act* was altered and renamed *Competition Act*¹⁷³ but section 32 has maintained the most important provision with respect to business practices which restrain or injure competition unduly. In addition, the scope of application of the *Competition Act* has become much broader. The act now explicitly deals with 'bid-rigging'¹⁷⁴, 'double ticketing'¹⁷⁵, 'pyramid selling'¹⁷⁶, 'referral selling'¹⁷⁷, 'bait and switch selling'¹⁷⁸ and sales above advertised prices.¹⁷⁹

¹⁶⁷ R.S.C. 1927, ch. 36.

¹⁶⁸ R.S.C. 1970, ch. C-23.

¹⁶⁹ *Combines Investigation Act*, section 36.

¹⁷⁰ *Combines Investigation Act*, section 37.

¹⁷¹ *Combines Investigation Act*, subsection 38(2).

¹⁷² *Combines Investigation Act*, subsection 38(3).

¹⁷³ R.S.C. 1985, ch. C-34.

¹⁷⁴ *Competition Act*, section 47.

¹⁷⁵ *Competition Act*, section 54.

¹⁷⁶ *Competition Act*, section 55.1.

¹⁷⁷ *Competition Act*, section 56.

¹⁷⁸ *Competition Act*, subsection 57(2).

¹⁷⁹ *Competition Act*, section 58.

b) Common law

aa) Law of torts

aaa) Tort of passing-off

Probably the most important form of misrepresentation concerning a trader's business is the tort of passing-off, which has also been called "unfair competition *par excellence*"¹⁸⁰, or the "main instance of unfair competition at common law".¹⁸¹ The term "passing-off" as it is presently used in Canada covers every kind of misrepresentation of wares or services in order to benefit from the reputation of a competitor. Two general classes of passing-off were codified in paragraphs 7(b) and 7(c) of the *Trade-marks Act*.¹⁸² However, instead of creating clarity, this codification has generated questions about the constitutional validity of these provisions and as to the relationship between the common law tort of passing-off and the statutory version of passing-off. The constitutional question was left open by the Supreme Court of Canada¹⁸³ and while some courts have held that paragraphs 7(b) and 7(c) are *ultra vires* Parliament¹⁸⁴, the Federal Court of Appeal in particular considers these

¹⁸⁰ Fleming, *Law of Torts*, 6th edition (1983) at 672.

¹⁸¹ See *MacDonald v. Vapour Canada Ltd.*, *supra* note 38, at 15.

¹⁸² In the Province of Québec article 1457 of the *Civil Code of Québec* provides for a general regulation concerning civil liability. This new provision has replaced article 1053 of the Québec *Civil Code of Lower Canada* which had been considered to be sanctioning passing-off and encompassing the torts contained with paragraphs 7(b) and (c) of the Trade-marks Act; see *Compro Communications Inc. v. Communications Promo-Phono L.T. Inc.* (1991), 41 C.P.R. (3d) 260 (Qué.S.C.).

¹⁸³ *MacDonald v. Vapour Canada*, *supra* note 38. A more detailed interpretation of the findings of the Supreme Court will be given at p. 70 ff.

¹⁸⁴ *Seiko Time Canada Ltd. v. Consumers Distributing Co. Ltd.* (1980), 50 C.P.R. (2d) 147 (Ont.H.C.); *Motel 6 Inc. v. No. 6 Motel Ltd.* (1981), 56 C.P.R. (2d) 44 (F.C.T.D.); *Asbjorn Horgard A/S v. Gibbs/Nortac Industries Ltd.* (1986), 9 C.P.R. (3d) 341 (F.C.T.D.); *Griffon Fieberglass Co. Ltd. v. Spectrum Aircraft Inc.* (1986), 11 C.P.R. (3d)

provisions to be valid legislation that rounds out the regulatory scheme prescribed by Parliament in the exercise of its legislative power in relation to trade-marks.¹⁸⁵

The first class of passing-off, described in paragraph 7(c) of the *Trade-marks Act*, is the prohibition on passing-off wares or services as and for those ordered or requested, or in other words, the substitution of a product of one party on calls for that of another without explanation¹⁸⁶ and in the hope that the customer will not notice the difference. The second and more important class, described in paragraph 7(b)¹⁸⁷, is the interdiction against directing public attention to ones wares, services or business in such a way as to cause or be likely to cause confusion in Canada. In order to be successful in a common law action

267 (F.C.T.D.); *Aca Joe International v. 147255 Canada Inc.* (1986), 10 C.P.R. (3d) 301 (F.C.T.D.).

¹⁸⁵ *Ashjorn Horgard A/S v. Gibbs/Nortac Industries Ltd.* (1987), 14 C.P.R. (3d) 315 (F.C.A.); concurring: *Aluminum Co. Of Canada Ltd. v. Tisco Home Building Products (Ontario) Ltd.* (1977), 33 C.P.R. (2d) 146 (F.C.T.D.); *Adidas (Canada) Ltd. v. Collins Inc.* (1978), 38 C.P.R. (2d) 145 (F.C.T.D.); *Imperial Dax Co. Inc. v. Mascoll Corp. Ltd.* (1978), 42 C.P.R. (2d) 62 (F.C.T.D.); *Royal Doulton Tableware Ltd. v. Cassidy's Ltd.-Cassidy's Ltee* (1984), 1 C.P.R. (3d) 233 (F.C.T.D.).

¹⁸⁶ Pattishall/Hilliard, *supra* note 58, 8-71.

¹⁸⁷ Although the common law doctrine of passing-off and the statutory remedy provided in paragraphs 7(b) and (c) are not identical, it is generally held that paragraphs 7(b) and 9c) are codified versions of the common law action. See, e.g., *MacDonald v. Vapour Canada Ltd.*, *supra* note 38, at 14; *Ashjorn Horgard A/S v. Gibbs/Nortac Industries*, *supra* note 185, at 327, both with respect to paragraph 7(b); *Motel 6, Inc. v. No. 6 Motel Ltd.*, *supra* note 184, *ibid.*; *Aca Joe International v. 147255 Canada Inc.*, *supra* note 184, *ibid.*, both with respect to paragraphs 7(b) and (c); *Kitchen Overall & Shirt Co. v. Elmira Shirt & Overall Co.*, *supra* note 163 with respect to section 11 of the *Unfair Competition Act*, R.S.C.1952 ch. 274. The Manitoba Court of Queen's Bench in *Home Shoppe Ltd. v. National Development Ltd.* (1987), 17 C.P.R. (3d) 126, at 129, more cautiously stated that "the common law rules of 'passing-off'(are) *perhaps* expressed in those paragraphs" (emphasis added). See also Fox, *supra* note 162, at 497 and 504. The differences between the common law and the statute will be explained at p. 82-83.

for passing-off as described in paragraph 7(b) the trader who sues must prove three issues¹⁸⁸: first, the existence of proprietary rights, in respect of which he is entitled to protection¹⁸⁹; secondly, a misrepresentation by the defendant which is likely to cause confusion in the market-place; and thirdly, the probability of suffering damages.

The right of property that is protected is goodwill of the business which can be described, to quote *Lord MacNaghten*, as “the benefit and advantage of the good name, reputation and connection of a business”, or as the “attractive form which brings in custom” and “which distinguishes an old-established business from a new business at its first start.”¹⁹⁰ That is to say, the defendant has to make use of the plaintiff’s reputation based on his - the plaintiff’s - efforts, skills and innovative abilities, or in other terms, interfere with the plaintiff’s business by skimming the cream off without any efforts of his own. Furthermore, in cases which turn on the get-up or distinguishing guise of a product, the plaintiff has to prove a so-called “secondary meaning”, that is to say, it must be established that the consumer believes, by reason of the appearance of the goods of the plaintiff, that the goods being sold are those of the plaintiff or come from the same source as “the originals”.¹⁹¹ Accordingly, in cases where the plaintiff alleges imitation of the way of

¹⁸⁸ *Ciba-Geigy Canada Ltd. v. Apotex Inc.* (1992), 44 C.P.R. 289, at 297 (S.C.C.).

¹⁸⁹ See Fox, *supra* note 162, at 503.

¹⁹⁰ *The Commissioners of Inland Revenue v. Muller & Co.’s Margarine Ltd.* (1901), A.C. 217 (H.L.).

¹⁹¹ *Roche Products Ltd. v. Bertz Pharmaceuticals Ltd.* (1973), R.P.C. 473 at 482 (C.A.); *Oxford Pendaflex Canada Ltd. v. Korr Marketing Ltd.* (1982), 134 D.L.R. (3d) 271 (S.C.C.); *Ciba-Geigy Canada Ltd. v. Apotex Inc.*, *supra* note 188; *Plastics Ltd. v. Dustbane Products Ltd.* (1994), 57 C.P.R. (3d) 474 (S.C.C.).

representing his business, this way has to be distinctive in a sense that the consumer thinks only of the plaintiff's business whenever the representation comes to his mind. Yet, this required distinctiveness does not burden the plaintiff with the need to show that actual confusion has occurred; he only has to prove that there is a probability of confusion occurring in the normal course of trade due to the defendant's misrepresentation.¹⁹² The difficult question as to when such a probability can be assumed is answered by section 6 of the *Trade-marks Act*. This provision applies also to the common law tort of passing-off to which the *Trade-marks Act* is not directly applicable because it is generally held that paragraphs 6(2)-(5) provides a "useful guide" to determine whether the use of a name, mark or sign or any other way of misrepresentation is likely to cause confusion, regardless of whether this question arises in a case under the *Trade-marks Act* or in a common law action for passing-off.¹⁹³ Therefore, it is of special significance whether the use of both symbols in question, or both ways of representing a business, is likely to lead to the assumption that the wares or services associated with the business are manufactured or performed by the same person. In determining whether this is the case all the surrounding circumstances have to be considered, including the distinctiveness of the symbol or the

¹⁹² E.g. *La Maur Inc. v. Prodon Industries Ltd.* (1971), 2 C.P.R. (2d) 114, at 116 (S.C.C.); *Gunnard Co. v. Regal Home Products Inc.* (1986), 13 C.P.R. (3d) 335, at 339 (Ont.H.C.); *World Wide Treasure Adventures Inc. v. T.G.I. Games Inc.* (1988), 21 C.P.R. (3d) 206 (B.C.S.C.).

¹⁹³ E.g. *Canadian Converters' Co. Ltd. v. Eastport Trading Co. Ltd.* (1968), 56 C.P.R. 205 (Exch.Ct.); *Fastening House Ltd. v. Fastway Supply House Ltd.* (1974), 13 C.P.R. (2d) 16 (Ont.H.C.); *Aluminum Co. of Canada Ltd. v. Tisco Home Building Products (Ontario) Ltd.*, *supra* note 185. Contra: *Westfair Foods Ltd. v. Jim Pattison Industries Ltd.* (1989), 26 C.P.R. (3d) 43 (B.C.S.C.) with reference to *MacDonald v. Vapour Canada Ltd.*, *supra* note 38.

way of representing the business and the extent to which both have become known¹⁹⁴, the length of the time the symbol has been used¹⁹⁵, the nature of the wares, services, business and trade¹⁹⁶, and finally the degree of resemblance between the two competing symbols or ways of representation.¹⁹⁷

The methods of passing-off are manifold and, although it is frequently accomplished with the assistance of deceptive or confusingly similar marks, signs or logos, passing-off may be practiced without the benefit of those.¹⁹⁸ Taking into account that the common law action for passing-off is basically unconnected with any regulatory scheme¹⁹⁹, one has to keep in mind that a misrepresentation, for example, can also be practised by using the specific furniture the competitor's premises is fitted out with, if it is distinctive enough, or by imitating the dresses which are typical for the waitresses in a competitor's restaurant. Passing-off can also include the purchase of merchandise under a deceptive name²⁰⁰ or supplying a conspirator with the means to pass off goods under false trade description.²⁰¹

¹⁹⁴ *Trade-marks Act*, paragraph 6(5)(a).

¹⁹⁵ *Trade-marks Act*, paragraph 6(5)(b).

¹⁹⁶ *Trade-marks Act*, paragraphs 6(5)(c) and (5)(d).

¹⁹⁷ *Trade-marks Act*, paragraph 6(5)(e).

¹⁹⁸ Pattishall\Hilliard, *supra* note 58, 8-71.

¹⁹⁹ *Motel 6 Inc. v. No. 6 Motel Ltd.*, *supra* note 184, at 76.

²⁰⁰ Fleming, *supra* note 180, at 674 with reference to *F.W. Woolworth & Co. v. Woolworths (Australia)* (1930), 47 R.P.C. 337 (Ch.D.).

²⁰¹ Fleming, *ibid.*

bbb) Tort of slander

The second form of misrepresentation in commercial matters is the tort of slander of title or goods. The wrong of this kind of injurious falsehood²⁰² consists in false statements made to other persons concerning a competitor or his goods with the result that those persons are induced to act in a manner that causes loss to him.²⁰³ Examples are the false charge that goods offered by a competitor for sale are an infringement of a patent or copyright²⁰⁴, the false and malicious depreciation of the quality of the goods or services manufactured or performed by a competitor²⁰⁵ or the imputation that a competitor has ceased to carry on business.²⁰⁶ The common law tort of slander of title or goods has found its statutory version in paragraph 7(a) of the *Trade-marks Act*²⁰⁷ which prohibits any false or misleading statement tending to discredit the business, wares or services of a competitor.

ccc) Tort of inducing or procuring breach of contract

Another type of unfair competition is the interference with contractual relations by means of intentionally inducing or procuring breaches of contract.²⁰⁸ Thus someone is liable for

²⁰² Both the tort of slander and the tort of passing-off are considered to be versions of "injurious falsehood" by *Salmond and Heuston on the Law of Torts*, 19th edition (1987), at 446 ff. See also Fleming, *supra* note 180, at 669, who also prefers the general term.

²⁰³ *Salmond, supra* note 202, *ibid.*

²⁰⁴ *Royal Baking Powder Co. v. Wright, Crossley & Co.* (1901), 18 R.P.C. 95 (H.L.).

²⁰⁵ *White v. Mellin*, [1895] A.C. 154 (H.L.). Both examples are provided by *Salmond, supra* note 202, at 447.

²⁰⁶ *The Hall-Gibbs Mercantile Agency Limited v. Dun* (1910), 12 C.L.R. 84 (H.C.Austr.). Further examples can be found at Fleming, *supra* note 180, at 669.

²⁰⁷ *MacDonald v. Vapour Canada Ltd.*, *supra* note 38, at 14.

²⁰⁸ Fleming, *supra* note 180, at 649-650.

damages if he or she either persuades, induces or procures a contracting party of a competitor not to perform his or her obligation (direct interference), or commits some unlawful act to prevent such performance (indirect interference).²⁰⁹

ddd) Tort of conspiracy and tort of intimidation

Two other torts of less importance in the field of unfair competition are conspiracy and intimidation. The tort of conspiracy consists of concerted actions of more than one trader against a competitor with the purpose of causing damages to him in his trade.²¹⁰ The tort of intimidation covers every action that is intended to compel someone, by means of a threat of a illegal act, to do something that causes loss to him.²¹¹

bb) Equity

The disclosure of trade secrets and confidential business information and their usage for the purpose of competing certainly constitute an unfair trade practice.²¹² However, those

²⁰⁹ Fleming, *supra* note 180, at 651. See for details Salmond, *supra* note 202, at 404 ff.; Hughes, "Liability For Loss Caused By Industrial Action" (1970), 86 L.Q.R. 181, at 182-192; Smith, "The Economic Torts: Their Impact on Real Property" (1977), 41 The Conveyancer 318, at 320-326; Burns, "Tort Injury to Economic Interests: Some Facets of Legal Response" (1980), 58 Can. Bar Rev. 102; Mills, "The Tort of Inducement of Breach of Contract" (1971), 1 Auck.U.L.Rev. 27.

²¹⁰ Salmond, *supra* note 202, at 415 ff; Fleming, *supra* note 180, at 663. The leading cases, according to Salmond, *ibid.*, are *Mogul Steamship Co. v. Mc Gregor, Gow & Co.*, [1892] A.C. 25 (H.L.); *Allen v. Flood*, [1898] A.C. 1 (H.L.); *Quinn v. Leathem*, [1901] A.C. 495 (H.L.); *Crofter Hand Woven Harris Tweed Co. v. Veitch*, [1942] A.C. 435 (H.L.).

²¹¹ See e.g. Salmond, *supra* note 202, at 421 ff.

²¹² See e.g. Fox, *supra* note 162, chapter 13; Institute of Law Research and Reform Edmonton, Alberta, and A Federal Provincial Working Party, *Trade Secrets, Report No 46* (1986) ("Report"), at 58; Turner, *The Law of Trade Secrets* (1962), at 422.

acts do not fall within one of the above-mentioned nominalé torts, and there is currently no recognized tortious cause of action for misappropriation of a trade secret in Canada.²¹³

This, however does not mean that a trader and his or her trade secrets are not protected by law. As stated by the Federal Court of Appeal²¹⁴, “a businessman, in Québec as well as in the common law provinces, is, quite apart from statute, liable to damages and an injunction if he embarks on a course of using in his business information that has been obtained for him from a competitor by an employee of that competitor in contravention of the employee’s contract of employment with that competitor.”

This protection is accomplished, as *Fox* puts it²¹⁵, “by virtue of the inherent equitable jurisdiction of the court.”²¹⁶ The precise basis for this protection, however, seems to be somewhat unclear. It is settled, that if the trade secret has been obtained in the course of a confidential relationship the principle of equity applicable is “breach of confidence”.²¹⁷ If this is not the case and the trade secret is used by a competitor who obtained it from a dishonest employee the doctrine of unjust enrichment is suggested to be applicable.²¹⁸

²¹³ Coleman, *The Legal Protection of Trade Secrets* (1992), at 58.

²¹⁴ *Vapor Canada Ltd. v. MacDonald* (1972), 8 C.P.R. (2d) 15, at 21.

²¹⁵ *Supra* note 162, at 653.

²¹⁶ It should be noted, however, that the *Copyright Act* and the *Patent Act* grant additional protection if the trade secret constitutes a copyright or consists of a patent.

²¹⁷ For details see *Fox*, *supra* note 162, at 652; Report, *supra* note 212, at 64 ff and the authorities cited there. It should be borne in mind that in most of these cases the law of contract already provides for adequate remedies.

²¹⁸ See Report, *supra* note 212, at 62 ff; Turner, *supra* note 212, at 352-353 and 356-360.

c) Provincial statutory regulation

aa) Trade Practice Acts

At the provincial level the protection of consumers and (reflexively) of competitors has been accomplished by the different *Trade Practice Acts*.²¹⁹ These acts concentrate on instances of unconscionable acts (e.g. section 4 of the *Trade Practice Act* of B.C.) and deceptive practices by suppliers that have the capability, tendency or effect of deceiving or misleading a person (e.g. section 3 of the *Trade Practice Act* of B.C.). Both kinds of conduct need to occur in relation to a consumer transaction which leads to the conclusion that the Trade Practice Acts are measures primarily to protect the consumer. The *Trade Practice Act* of B.C., for example, provides an enumeration of 19 different kinds of misleading representations as examples of a deceptive practice (paragraphs 3(3)(a)-(s)).²²⁰ The same statute requires the judge to consider all surrounding circumstances to determine whether an act or practice is unconscionable and refers specifically to the questions whether the consumer was subjected to undue pressure (paragraph 4(2)(a))²²¹; whether the consumer was taken advantage of by his inability or incapability to reasonably protect his or her own interest (paragraph 4(2)(b))²²²; whether the price of the ware or service was grossly exceeded (paragraph 4(2)(c))²²³; whether there was no reasonable

²¹⁹ British Columbia: *Trade Practice Act*, R.S.B.C. 1979 ch. 406; Manitoba: *Trade Practices Inquiry Act*, R.S.M. 1987 ch. T-110; Newfoundland: *Act Respecting Unfair and Unconscionable Trade Practices*, R.S.Nfld. 1990 ch. T-7; Ontario: *Business Practices Act*, R.S.O. 1990 ch. B.18;

²²⁰ Newfoundland: 23 (paragraphs 5(1)(a)-(w)); Ontario: 14 (subparagraphs 2(1)(i)-(xiv)).

²²¹ Newfoundland: paragraph 6(1)(e); Ontario: subparagraph 2(2)(viii).

²²² Newfoundland: paragraph 6(1)(f); Ontario: subparagraph 2(2)(i).

²²³ Newfoundland: paragraph 6(1)(c); Ontario: subparagraph 2(2)(ii).

probability of full payment (paragraph 4(2)(d))²²⁴; and whether the terms or conditions of the transaction were so harsh or adverse to the consumer as to be inequitable (paragraph 4(2)(e)).²²⁵

The *Trade Practices Inquiry Act* of Manitoba takes a slightly different approach. It provides for the possibility of requiring a public investigation concerning trade practices such as misleading representation or advertising (subparagraph 2(a)(i)); dealing in improperly adulterated or diluted articles (subparagraph 2(a)(ii)); unfair or improper making charges for additional services (subparagraphs 2(a)(iii)-(iv)); making use of unfair, improper or misleading advertisement (subparagraph 2(a)(v)); making improper, misleading or unfair appeals to the public for financial support (subparagraph 2(a)(vii)); or following or using unfair detrimental or improper practices (subparagraph 2(a)(viii)).

As “classical” consumer protection acts, the *Trade Practice Acts* also become a means of directly protecting competitors when they provide a right of action for them. Subsection 18(1) of the *Trade Practice Act* of B.C., for example, provides that an action under the Act may be brought by any person “whether or not that person has a special, or any, interest under this Act or the regulations, or is affected by a consumer transaction (...)”

²²⁴ Newfoundland: paragraph 6(1)(a); Ontario: subparagraph 2(2)(iv).

²²⁵ Newfoundland: paragraph 6(1)(d); Ontario: subparagraph 2(2)(vi). The Acts of other Provinces provide additional examples, e.g. whether the consumer is unable to receive a substantial benefit from the subject-matter of the consumer representation (Newfoundland; Ontario); whether the proposed transaction is excessively one-sided in favour of someone other than the consumer (Newfoundland; Ontario); and whether the consumer is likely to rely on a misleading statement of opinion (Ontario).

Section 2 of the *Trade Practices Inquiry Act* of Manitoba requires only the complaint of “any four persons who are residents in Manitoba”, persons who may be consumers or competitors. Thus the *Trade Practice Acts* and their sanctions on deceptive and unconscionable conduct in trade and commerce become available to the rival competitors whose businesses are affected by the defendant’s dishonest behaviour.

bb) Consumer Protection Acts

Another cornerstone of consumer protection legislation are the provincial and territorial *Consumer Protection Acts*.²²⁶ Although most of their provisions deal with the buyer’s contractual or post-contractual rights, there are some regulations that focus on the trader’s conduct before the consumer enters into contract. Section 30 of the *Consumer Protection Act* of B.C., for example, limits advertisement relating to the terms of credit²²⁷, and section 32 of the same act deals with the dispatch of unsolicited credit cards or

²²⁶ Alberta: *Consumer Credit Transactions Act*, R.S.A. 1980, ch. C-22.5; British Columbia: *Consumer Protection Act*, R.S.B.C. 1979, ch. 65; Manitoba: *The Consumer Protection Act*, R.S.M. 1987, ch. C200; Newfoundland: *Act to Provide for the Protection of Buyers of Consumer Goods and for the Fair Disclosure of the Cost of Credits*, R.S.Nfld. 1990, ch. C-31; Nova Scotia: *Act to Provide for the Fair Disclosure of the Cost of Credit and for the Protection of Buyers of Consumer Goods*, R.S.N.S. 1989, ch. 92; Ontario: *Consumer Protection Act*, R.S.O. 1990, ch. C.31; Prince Edward Island: *Act to Provide for the Fair Disclosure of the Cost of Credit and for the Protection of Buyers of Consumer Goods*, R.S.P.E.I. 1974, ch. C-17; Northwest Territories: *Consumer Protection Act*, R.S.N.T. 1988, ch. C-17; Yukon Territory: *Ordinance for the Protection of Consumer* 1971, ch. 3.

²²⁷ Identical or similar regulation can be found in Manitoba (section 26); Newfoundland (section 19); Nova Scotia (section 20); Ontario (section 29); Prince Edward Island (section 21); Northwest Territories (section 37); and Yukon Territory (section 27).

goods.²²⁸ The *Consumer Protection Act* of Manitoba also focuses on the inducement of consumers. Subsection 60(2) of this Act prohibits selling practices in the course of which the vendor gives, offers, or promises to give gifts or other benefits to a buyer on the condition that the buyer assists him in trying to make a sale to another buyer. Subsection 60(3) provides for a prohibition against premiums where the retail sale value of the goods is not accurately disclosed, or where it is contingent upon the prospective buyer making a purchase.

2) “Honest practices” in paragraph 7(e) of the *Trade-marks Act*

a) Scope of application

aa) Statutory version of a “tort of unfair competition” ?

Up until now it could be noted that the federal *Competition Act* and the common law of torts in particular provide for a comprehensive protection of competitors against unfair rivalry that interferes with the competitor’s business and thus causes damages to him. In addition, very detailed provincial regulations provide for the protection of consumers against unfair trade practices. The different thrusts of the common law economic torts, *i.e.* the protection of competitors, on the one hand, and the provincial consumer protection

²²⁸ Identical or similar regulation can be found in Alberta (section 29); Nova Scotia (section 23); Ontario (section 36); and Prince Edward Island (section 17). It should be noted, however, that these provisions are different in their attempts to stem this kind of undesirable and obtrusive invasion into the consumer’s private sphere. In Nova Scotia and Ontario the dispatch of unsolicited goods is not generally prohibited. The Acts in these Provinces only emphasise that there is neither an obligation to accept the goods nor a duty to take care of them. On the other hand, in Alberta the issue of unsolicited credit cards is generally prohibited, whereas in Prince Edward Island the issue or delivery of unsolicited goods and credit cards is disallowed.

legislation on the other hand, result in a partial overlapping with respect to false and misleading representations. Yet, as pointed out before, every measure to protect a competitor against unfair rivalry is, at the same time, a means of protecting the consumer. That is to say, although the remedies at common law in actions for passing-off, slander, inducing or procuring breach of contract, or conspiracy and intimidation were chiefly built up for the protection of traders and for the prevention of commercial dishonesty²²⁹, the prohibition of these actions also has the effect of protecting the consumer. This is particularly apparent for the tort of passing-off and vice versa for the prohibition against deceptive representations in the provincial *Trade Practices Acts*, because every sign or symbol, whether it is a trade-mark or not, is displayed on the goods or their labels for the purpose of distinguishing the wares from those manufactured by others and because every distinctive way of representing a business is a means of standing out against the large number of competitors in the market-place. It follows that the specific symbols or logos or every distinctive way of representing a business generally indicates that the goods or services come from the same source and meet the same standard of quality as all other goods and services which have been sold or performed under the same symbol or in the same distinctive way. Since the source and the quality of a product are two of the most important grounds for the consumers' decision to purchase the wares or services that are offered to him, it can easily be argued that any misleading use of marks or symbols or any kind of misrepresentation is a means of deceiving and enticing customers. This is the

²²⁹ *Kitchen Overall & Shirt Co. v. Elmira Shirt & Overall Co.*, *supra* note 163, at 9, with reference to the tort of passing-off.

reason why the prohibition against misrepresentation that is likely to lead to confusion as to the origin of the goods or services is not only a means of protecting the goodwill or reputation of a trader's business but also an essential part of consumer protection legislation. This very aspect - at least with regard to the doctrine of passing-off - has been stressed by the Supreme Court of Canada, which held that the common law principles relating to commerce and trade are also for the benefit to the community from free and fair competition.²³⁰

Having regard to the relatively comprehensive protection of traders at common law, it is not surprising that the examples provided by section 7 of the *Trade-marks Act* for dishonest conduct in commercial matters have been considered to be statutory versions of common law torts, namely, paragraph 7(a) as the statutory version of the tort of slander of title, and paragraphs 7(b) and (c) as the statutory versions of the tort of passing-off.²³¹ Consequently, the first question that arises when the scope of application of paragraph 7(e) is to be defined is whether this provision regulates in statutory form a matter that is already covered by common law. It would follow from the broad and general wordings in subsection 7(e) that this common law tort would need to be a "tort of unfair competition" or a "tort of dishonest conduct" with respect to a commercial transaction. And indeed,

²³⁰ *Consumers Distributing Co. Ltd. v. Seiko Time Canada Ltd.* (1984), 1 C.P.R. (3d) 1; *Ciba-Geigy Canada Ltd. v. Apotex Inc.*, *supra* note 188, at 300. This shows an interesting shift from a mere property protection approach in *Levy v. Walker* (1879), 10 Ch.D. 436 (C.A.) where it was stated that the "primary purpose of the passing-off action is to safeguard the plaintiff's proprietary interest in his goodwill, and not to protect the consumer".

²³¹ See references given in fn. 187.

there have been some attempts to acknowledge that kind of general tort. It has been suggested that the above considered torts are only examples of a tort of causing loss by unlawful means. The case *Rookes v. Barnard*²³² which primarily deals with the existence of the tort of intimidation is generally thought to implicitly support this suggestion.²³³ The House of Lords held there that a right to a tortious claim arises where there is a threat of an unlawful act (in this case: threat of a breach of contract) to cause economic harm. This “new tort” is considered to be acknowledged in *Stratford v. Lindly*²³⁴ where the House of Lord again focused on the “interfering with existing contracts” that “made it practically impossible (...) to do any new business (...)” “Such interference with business” was held to be “tortious if any unlawful means are employed.”²³⁵ Both cases, however, primarily dealt with the interference with contractual relations so that there may remain some doubts as to whether they refer to a general tort of causing damages by unlawful means. A clearer statement was given by the Court of Appeal in *Torquay Hotel Co. Ltd. v. Cousins*²³⁶, a case that also deals with the interference with contracts, where *Lord Denning* stated that he had “always understood that if one person deliberately interferes with the trade or business of another, and does so by unlawful means, then he is acting unlawfully, even though he does not procure or induce any actual breach of contract. If the means are

²³² [1964] A.C. 1129 (H.L.).

²³³ Weir, “Chaos or Cosmos? Rookes, Stratford and the Economic Torts”, [1964] Camb.L.J. 225, at 226; Hoffmann, “Rookes v. Barnard” (1965), 81 L.Q.R. 117, at 140 (“may be the starting point”); Mitchell, “Liability in Tort For Causing Economic Loss By the Use of Unlawful Means and Its Application to Australian Industrial Disputes” (1975), 5 Adel.L.Rev. 428, at 434; Burns, *supra* note 209, at 142; Carty, “Unlawful Interference with Trade”, [1983] 3 Leg. St. 193 ff.

²³⁴ See, e.g., Burns, *supra* note 209, *ibid*.

²³⁵ [1965] A.C. 269, at 324.

unlawful, that is enough.” According to this proposition the idea of the existence of a tort of causing damages by unlawful means has also found some support in the legal literature.²³⁷

This view, however, is not unanimous. Apparently relying on Lord Denning’s finding counsel for defendant in *Merkur Island Shipping Corporation v. Laughton*²³⁸ contended that there are two distinct torts, namely, inducing breach of contract and interfering with trade or business by unlawful means. Pointing out that these two different torts have a different history and that the latter was older, they contented themselves with giving only the earliest authority for this kind of alleged tort, a case occurring in 1620.²³⁹ The House of Lords, however, remained unimpressed and did not refer to this case, and ultimately held that the claim of wrongful interference with trade or business was barred by the Trade Union and Labour Relation Act and that (only) the claim of inducing breach of contract was sustainable at common law.²⁴⁰ This assessment seems to be shared by the Ontario High Court of Justice²⁴¹ which was not convinced by the plaintiff’s argument that “there is a right of action acknowledged by section 7(e) and probably at common law, where

²³⁶ [1969] 2 Ch.D. 106, at 139.

²³⁷ Salmond, *supra* note 202, at 402 ff.; Hughes, *supra* note 209, at 197. Smith, *supra* note 209, at 326, by not wanting to review the controversy implicitly assumes the existence of this tort.

²³⁸ [1983] 2 A.C. 571, at 595.

²³⁹ *Garret v. Taylor* (1620), 2 Cro.Jac. 567, cited in *Merkur Island Shipping Corporation v. Laughton*, *supra* note 238, at 596.

²⁴⁰ *Ibid.*, at 586.

²⁴¹ *Eldon Industries Inc. v. Reliable Toy Co. Ltd. and National Sales Incentives Ltd.*, *supra* note 163, at 258.

anyone does a dishonest thing with respect to a commercial transaction with another". Also, the Ontario Court held that "an act of dishonesty within the meaning of section 7(e) (...) which does not constitute a tortious act, is not actionable and ultimately denied the existence of the right of action for dishonesty "unless it was dishonesty arising out of a breach of fiduciary relationship or breach of contract or some other relationship giving a right of action".²⁴² It is also worth mentioning that in the *MacDonald* case the Supreme Court of Canada which paid so much attention to the relationship between the common law torts and section 7 did not mention the existence of a tort of causing damages by unlawful means or, in commercial matters, a tort of unfair or dishonest competition, that could have been expressed in statutory form in paragraph 7(e).²⁴³

The question, however, whether or not the common law has a general doctrine of unfair competition or trade and whether or not this principle has found its statutory version in paragraph 7(e) does not need to be answered here. This is because an affirmative answer would, if anything, not say much about the scope of this principle and the function of paragraph 7(e). To determine what conduct is regulated by this provision one has to look

²⁴² See also Carty *supra* note 233, at 193: "The common law has no general doctrine of unfair competition or trade" and Report, *supra* note 212, at 55: "Anglo-Canadian law has not adopted prima facie tort theory, which holds that any harm which one person inflicts on another person is actionable in the absence of lawful justification." The Report's view also has been adopted by Coleman, *supra* note 213, at 47.

²⁴³ The Supreme Court, however, stated very broadly and unconvincingly that paragraph 7(e) "as a class of prescriptions, additional to those in the preceding catalogues" appeared "to be simply a formulation of the tort of conversion, perhaps writ large and in a business context." On the other hand, the Report, *supra* note 212, at 57, saw in paragraph 7(e) an attempt "to introduce a cause of action for unfair competition" in form of a "statutory tort".

at the cases that dealt with “dishonest practices” until paragraph 7(e) was held to be unconstitutional in 1976.

bb) The cases

Looking at the interpretation and specification of the term “honest practices” by the Canadian Courts, two basic statements can be made as the starting point for the determination of the ambit of paragraph 7(e): Firstly, paragraph 7(e) must be read *eiusdem generis* with paragraphs 7(a), (b), (c), and (d)²⁴⁴; and secondly, it does not intend to grant monopoly rights for which statutory protection in special acts, such as the Copyright Act or the Industrial Design and Union Label Act, cannot be obtained.²⁴⁵

The *eiusdem generis* point of view, however, can be interpreted in two slightly different manners: When paragraph 7(e) must not be “removed from the contextual influence of the foregoing clauses of the section”²⁴⁶, then it follows from the words “other acts” in this paragraph that it only encompasses acts that do not fall within one of the preceding paragraphs.²⁴⁷ On the other hand, it could be argued that these words indicate that

²⁴⁴ *Eldon Industries Inc. v. Reliable Toy Co. Ltd.* (1965), 48 C.P.R. 109, at 117 (Ont.C.A.); *Clairol International Corp. and Clairol Inc. of Canada v. Thomas Supply & Equipment Co. Ltd.* (1968), 55 C.P.R. 176, at 186 (Exch.Ct.). See also *Vapor Canada Ltd. v. MacDonald* (1972), 8 C.P.R. (2d) 15, at 22, where the Federal Court of Appeal looks at section 7 from the point of view of the *eiusdem generis* rule.

²⁴⁵ *Eldon Industries Inc. v. Reliable Toy Co. Ltd.*, *supra* note 244, *ibid.*

²⁴⁶ *Eldon Industries Inc. v. Reliable Toy Co. Ltd.*, *supra* note 244, *ibid.*

²⁴⁷ As stated in *Clairol International Corp. and Clairol Inc. of Canada v. Thomas Supply & Equipment Co. Ltd.*, *supra* note 244, at 186/87, *54601 Ontario Ltd. v. Hollander* (1989), 24 C.P.R. (3d) 408, at 409 (F.C.T.D.).

paragraph 7(e) expresses a general principle of which paragraphs 7(a)-(d) are only examples. This seems to be indicated in *A.C. Spark Plug Co. v. Can. Spark Plug Service*²⁴⁸, where the Exchequer Court of Canada pointed out that “[i]nasmuch as (...) there has been (...) no passing-off, I cannot see how it can be said that the business carried on (...) is contrary to honest industrial and commercial usage.”²⁴⁹ This proposition, however, would not lead to a different result. Even if paragraph (e) were the general rule and even if every action that falls under the preceding paragraphs would thus also fall within paragraph (e), the *lex specialis derogat legis generalis* rule would make paragraph (e) not applicable where an action is already covered by one of the foregoing paragraphs.

Given that paragraph 7(e) does not encompass acts that fall under paragraphs 7(a) - (d) and that it does not grant protection for intellectual property that cannot be obtained in special Acts dealing with monopoly rights, what kind of conduct was left for its application? Until 1976, paragraph 7(e) had been applied in three cases involving a breach

²⁴⁸ [1935] 3 D.L.R. 84.

²⁴⁹ This point of view is also indicated in *Therapeutic Research Corp. Ltd. v. Life Aid Products Ltd.* (1968), 56 C.P.R. 149, at 152 (Exch.Ct.), and in *Dupont of Canada Ltd. v. Nomad Trading Co. Ltd.* (1968), 55 C.P.R. 97 (Qué.S.C.). In the former case it was stated that “although such a course of action may not fall under the prohibition contained in paragraphs (a), (b), (c), or (d) of section 7 of the Trade-marks Act it is, (...), covered by paragraph (e) thereof (...)” In the latter the Québec Superior Court held that an act that falls under paragraph 7(d) because it creates “confusion of goods by falsely presenting in character, quality, production and performance of goods” is “dishonest and ... a direct transgression of the right of the petitioners and to good business practice.” The Québec Court, however, did not distinguish between paragraph 7(d) and 7(e) but more generally held that the act in question violates “section 7”.

of confidence and a taking of a trade secret²⁵⁰: In *Breeze Corporation v. Hamilton Clamp & Stampings Ltd.*²⁵¹ the Ontario High Court held that the use of “confidential and technical information for purposes other than that for which it was disclosed, constituted an act contrary to honest industrial or commercial usage in Canada.” This point of view was shared by the Federal Court of Appeal in *Vapor Canada Ltd. v. MacDonald*.²⁵² In this case it was held that it is contrary to paragraph 7(e) if the defendant makes use of knowledge that he had acquired as an employee of the plaintiff. The Federal Court, Trial Division eventually extended the scope of application of paragraph 7(e) to cases where the information was not obtained by an employee but an independent contractor doing confidential work.²⁵³ In addition paragraph 7(e) was considered to be applicable where a publicity leaflet contained a number of untrue and deceptive statements and representations about the origin of a medical device.²⁵⁴

In some other cases paragraph 7(e) and its predecessor, paragraph 11(c) of the *Unfair Competition Act*, had been considered but not applied: In *Lebel v. Ontario Beauty Supply Co. Ltd.*²⁵⁵ the Québec Superior Court held that paragraph 11(c) was not applicable where an ambiguous advertising bulletin with respect to a competitor’s business was merely the result of a carelessly drafted phrase. In 1968 the Exchequer Court of Canada found

²⁵⁰ See Morrissey, “Subsection 7(e) of The Canadian Trade-Marks Act” (1991), 8 C.I.P.R. 12, at 15.

²⁵¹ (1961), 37 C.P.R. 153, at 165.

²⁵² (1972), 8 C.P.R. (2d) 15, at 21.

²⁵³ *Consolidated Textiles Ltd. v. Central Dynamics Ltd.* (1974), 18 C.P.R. (2d) 1, at 7.

²⁵⁴ *Therapeutic Research Corp. v. Life Aid Products*, *supra* note 249, *ibid.*

²⁵⁵ (1950), 16 C.P.R. 105 (Qué.S.C.).

paragraph 7(e) not applicable in a case where the defendant used for hair tinting and colouring products, colour comparison charts on the packages that were likely to depreciate the value of the goodwill associated with a competitor's trade-mark.²⁵⁶

In *Eldon Industries Inc. v. Reliable Toy Co. Ltd.*²⁵⁷ the applicability of paragraph 7(e) was eventually denied on the grounds that the trade practice in question (the production of a toy that was identical in design with a competitor's product) itself was not actionable because it did not infringe a copyright or constitute a breach of contract.

Finally, in *Warner Bros. - Seven Arts Inc. v. CESM - TV Ltd.*²⁵⁸ the question was raised whether the video taping of television programs constitutes not only a copyright infringement but also a dishonest act as described in paragraph 7(e). The Exchequer Court of Canada, however, thought it to be sufficient to hold that the copyright was infringed and left this question open.

b) The effect of paragraph 7(e) after *MacDonald v. Vapour Canada Ltd.*

The courts' obvious uncertainty about the scope of paragraph 7(e) found its temporary end with the Supreme Court's decision in *MacDonald v. Vapour Canada Ltd.*²⁵⁹ This decision, the factual plot of which was the "unlawful disclosure, in breach of confidence, of trade secrets and unlawful business use of such trade secret"²⁶⁰, is significant especially

²⁵⁶ *Clairol International v. Thomas Supply & Equipment*, *supra* note 244, at 177.

²⁵⁷ (1965), 48 C.P.R. 109 (Ont.C.A.).

²⁵⁸ (1971), 65 C.P.R. 215 (Exch.Ct.).

²⁵⁹ *Supra* note 38. For a summary of the constitutional situation and a comment on the effect of this case see the excellent article by Bell\Probert, "The Constitutionality of Canadian Trade Mark Law" (1985), 4 C.P.R. (3d) 305.

²⁶⁰ *Supra* note 38, at 7.

with respect to its interpretation of the division of powers under sections 91 and 92 of the *British North America Act, 1867*.²⁶¹ However, it will not be necessary to consider the constitutional aspects in detail. For the purpose of determining the present effect of paragraph 7(e) it will be sufficient to briefly summarize the Supreme Court's relevant findings:

- paragraph 7(a) is the equivalent of the tort of slander.²⁶²
- paragraph 7(b) is a statutory statement of the common law action of passing off.²⁶³
- paragraph 7(c) is a remedy that already exists in the ordinary law of contract.²⁶⁴
- paragraph 7(d) gives a right of action that would be expected to arise through breach of contract. It can also envisaged as a statutory tort of deceit.²⁶⁵
- the wording of paragraph 7(e) supports the suggestion that paragraph 7(e) "encompass breach of confidence by way of appropriating confidential knowledge or trade secrets to a business use adverse to the employer." It would also "appear to be broad enough to cover the fruits of industrial espionage."²⁶⁶

²⁶¹ In 1982 *The British North America Act* was renamed *Constitution Act, 1867*; *Constitution Act, 1982*, subsection 53(2).

²⁶² *Supra* note 38, at 14.

²⁶³ *Ibid.*

²⁶⁴ *Ibid.*

²⁶⁵ At 15.

²⁶⁶ *Ibid.*

- paragraph 7(e) "as a class of prescriptions, additional to those in the preceding catalogues" appears "to be simply a formulation of the tort of conversion, perhaps writ large and in a business context."²⁶⁷

- paragraph 7(e) "does not have any connection with the enforcement of trade-marks or trade names or patent rights or copyright as may be said to exist in paragraphs 7(a), (b) and (d)."²⁶⁸

The Supreme Court held that paragraph 7(e), regardless of whether it "be taken alone or as part of a limited scheme reflected by section 7 as a whole", could not be supported as federal legislation under section 91 of the *British North America Act, 1867*.²⁶⁹ This judgment appeared to have set an end to the controversial question about the ambit of paragraph 7(e): The only more or less unanimously accepted conduct to which paragraph 7(e) was held to be applicable - breach of confidence and disclosure of trade secrets - was eventually denied to be validly encompassed by this provision. From an uncertain living in the shadows²⁷⁰ paragraph 7(e) ultimately seemed to have dissolved in the meaninglessness of its unconstitutionality.

²⁶⁷ At 16.

²⁶⁸ At 22.

²⁶⁹ Apart from the question whether or not Federal Parliament has the legislative authority to pass acts in implementation of an international obligation (see *supra* fn. 163), the core issue was whether paragraph 7(e) falls under the "trade and commerce" power in section 92(2) of the *British North America Act, 1867*. See as to the scope of this section Hogg, *Constitutional Law in Canada* (1985), at 440 ff.

²⁷⁰ Another description can be found in the Report, *supra* note 212, at 57: "This statutory tort lay dormant for many years and was not relied upon in practice."

However, in several cases decided by the Federal Court, Trial Division paragraph 7(e) experienced its revival.²⁷¹ In *Balinte v. DeCloet Bros. Ltd.*²⁷² the Federal Court pointed out that the *MacDonald* case “did not declare s. 7(e), *ultra vires*, absolutely, but that “[i]t was *ultra vires* on the facts of that case which did not bring into issue any question of patent, copyright or trade mark infringement or any tortious dealing with such matters or with trade names.” The Trial Division’s decision was upheld by the Federal Court of Appeal which considered this view to be a “fairly arguable position”.²⁷³ In *Flexi-Coil Ltd. v. Smith-Roles Ltd.*²⁷⁴ the Federal Court held that the “plaintiff ought not summarily be precluded from arguing that para. 7(e) is *intra vires* as rounding out the scheme of the Patent Act (...)” This view was repeated in *McCabe v. Yamamoto & Co. (America) Inc.*²⁷⁵ where it was again suggested that the Supreme Court’s finding “possibly leave(s) open the argument that s. 7(e) may nevertheless be valid in respect of subject-matters which may not be dealt under the other subsections of s. 7, so long as its application is in relation to patents, trade marks or copyrights.”²⁷⁶

²⁷¹ But also see the list of cases provided by Morrissey, *supra* note 250, at 18-19 as authorities for the proposition that paragraph 7(e) is completely unconstitutional.

²⁷² (1978), 40 C.P.R. (2d) 157.

²⁷³ *Decloet Bros. Ltd. v. Balinte* (1980), 56 C.P.R. (2d) 102. In *Molnlycke AB v. Kimberley-Clark of Canada Ltd.* (1991), 36 C.P.R. (3d) 493, at 497, the Federal Court of Appeal expressed its uncertainty about the effect of the Supreme Court’s decision by still looking at paragraph 7(e) “to the extent that [it] has any force in the wake of [this] decision (...)” In a more recent decision, however, the Federal Court of Appeal took the opposite view. In *Bousquet v. Barmish Inc.* (1993), 46 C.P.R. (3d) 510 it held that paragraph 7(e) “is not constitutionally valid as to any residual subject-matter.”

²⁷⁴ (1981), 59 C.P.R. (2d) 46, at 47.

²⁷⁵ (1989), 23 C.P.R. (3d) 498.

²⁷⁶ See also the references given in fn. 184-185 with respect to the constitutionality of paragraphs 7(b) and (c).

What exactly is meant by these statements, however, and what kind of conduct can still be considered to be falling under paragraph 7(e) remains unanswered.²⁷⁷ In the *McCabe* case the Federal Court described the act that might be encompassed by paragraph 7(e) as being “of a dishonest nature tending to cause some sort of harm or prejudice to a person who might otherwise appear to be, at least as against the opponents, properly vested with the rights to that piece of intellectual property.”²⁷⁸

It may well be that the Supreme Court’s decision leaves only room for this specific approach. But this, of course, does not necessarily mean that this approach is correct. It is certainly not in line with the decision of the Ontario Court of Appeal in the *Eldon Industries*²⁷⁹ case where paragraph 7(e) was denied to grant monopoly rights for which statutory protection in special acts such as the *Copyright Act* or *Industrial Design and Union Label Act* cannot be obtained. The Ontario Court’s view is also supported by the Federal Court’s judgement in *Weider v. Beco Industries Ltd.*²⁸⁰ where with respect to paragraph 7(b) it was stated that the Patent Act “provides the plaintiffs with causes of action and remedies for the enforcement and protection of the rights granted them under it” and that “[i]t is entirely unnecessary to the scheme of the *Patent Act* for them to go outside it, to s. 7(b) of the *Trade Marks Act* (...)” Furthermore, with reference to the suggestion that paragraph 7(e) be “applicable to a predatory practice or misuse” of

²⁷⁷ As to the uncertain effect of the *MacDonald* decision see also Bell\Probert, *supra* note 259, at 323 ff.; Morrissey, *supra* note 250, at 17 ff.

²⁷⁸ *Supra* note 275, at 508.

²⁷⁹ *Supra* note 257.

²⁸⁰ (1976), 29 C.P.R. (2d) 175, at 177.

intellectual property that is not otherwise covered by paragraphs 7(a) - (d), the editorial note to the *MacDonald* case in the Canadian Patent Reporter points out that "as applied to patents one would more likely have found Parliament dealing with the subject-matter in the *Patent Act* (...) rather than the *Trade Marks Act*."²⁸¹

At least two further authorities can be referred to in order to question the limited validity of paragraph 7(e) with respect to intellectual property rights. Without a reference to the Supreme Court's decision in the *MacDonald* case the Federal Court, Trial Division in *Mattel Canada Inc. v. GTS Acquisition and Nintendo of America Inc.*²⁸² stated that paragraph 7(e) in regulating the whole "minefield" of unfair competition "surely" intends to ensure "that some kind of (video) games should not be played in the market-place." The Court then suggested "that underlying the whole concept of the *Trade-marks Act* is the fundamental principle that the statute should never afford aid or protection to anyone's unlawful activities." Without the need to further examine this assessment, it certainly indicates that it is not paragraph 7(e) which actually determines what conduct with respect to intellectual property is unlawful but that this is to be accomplished by the relevant acts themselves dealing with this subject-matter. This view is supported by the decision of the Federal Court of Appeal in *Molnlycke AB v. Kimberley-Clark of Canada Ltd.*²⁸³ The Court of Appeal with regard to paragraph 7(e) emphasised that "Parliament has in the *Patent Act* (...) defined a 'due' impairment of competition, such that it defines a monopoly

²⁸¹ 22 C.P.R. (2d) 6.

²⁸² (1989), 27 C.P.R. (3d) 358, at 365.

²⁸³ *Supra* note 273.

that in its existence is not contrary to public policy” and that “[u]ndue impairment of competition cannot be inferred from the evidence of the exercise of rights under the Patent Act alone.”

3) Summary and analysis

The given overview of the interpretation and specification of the terms “public morals” and “honest practices” by German and Canadian Courts shows a rather significant difference in the importance of both terms for German and Canadian unfair competition law. While the German term more or less constitutes unfair competition law alone, the Canadian term has in the field of intellectual property, if at all, a very controversial and dubious residual meaning which nobody seems to be able to define. Three reasons can be given for this.

a) First reason: The different concepts with respect to the division of powers

The first and most important reason is the difference in both Constitutions as to the division of powers. Both Canada and Germany are federal states consisting of provinces or states (*Länder*) with legislative power to regulate certain subject-matters on their own. The *Grundgesetz* (Basic Law - German Constitution) in Article 74(1) No. 1, however, grants the Federal Parliament (*Bundestag*) the concurrent legislative authority with respect to civil and commercial law including unfair competition law.²⁸⁴ In contrast, the Canadian

²⁸⁴ The enumerated subject-matters that fall under concurrent legislative authority can be regulated by the states (only) unless Federal Parliament has made laws to regulate them. If Federal Parliament enacts a law with regard to such a subject-matter a previous state law

Constitution Act, 1867, in subsection 92(13) confers legislative authority to regulate property and civil rights on the provinces. As a "federal provision", paragraph 7(e) could thus only be interpreted as being connected to trade and commerce, the regulation of which is conferred on the federal Parliament by subsection 91(2). In its landmark decision in *Citizens Insurance Co. of Canada v. Parsons*²⁸⁵, however, the Judicial Committee of the Privy Council (J.C.P.C.) had established four important propositions with respect to the federal legislative power to regulate trade and commerce, namely that (1) this power does not correspond to the literal meaning of the words "regulation of trade and commerce"; (2) it essentially but not only includes arrangements with regard to international and interprovincial trade; (3) it may include general regulation of trade affecting the whole dominion; and (4) it does not extend to regulating the contracts of a particular business or trade.²⁸⁶ These criteria were specified in the *MacDonald* case where the Supreme Court of Canada held that in order for federal legislation to fall under the trade and commerce power, it must be: (1) part of a general scheme that is monitored by the continuing oversight of a regulatory agency and (2) concerned with trade as a whole rather than with a particular industry.²⁸⁷ It follows from this that while the German term could be defined

regulating the same matter becomes void (Art. 31: "Federal law breaks state law"). However, Federal Parliament has only legislative power under Art. 74 (concurrent legislation) as long as a federal regulation is necessary to create equally good living conditions within the whole nation or to preserve the legal or economical unity in the interest of the nation (Art. 72).

²⁸⁵ (1881), 7 A.C. 96.

²⁸⁶ Although the definition of the J.C.P.C. has been modified by the Supreme Court, *Citizens Insurance v. Parsons* still stands for the proposition that section 91(2) confers to federal parliament only the power to regulate trade in general. See, e.g., *General Motors of Canada Ltd. v. City National Leasing* (1989), 58 D.L.R. (4th) 255 (S.C.C.).

²⁸⁷ *Supra* note 38, at 27/28.

within the whole scope of civil law, the Canadian term from the very hour of its birth was limited to the subject-matter "trade and commerce" as prescribed in subsection 91(2) and interpreted by the J.C.P.C. and now the Supreme Court of Canada. The result of this has been shown: § 1 *UWG* with its term "public moral" could slightly change its thrust away from a means of merely protecting the competitors in the market-place to an instrument to also ensure fair trade practices on behalf of the consumers without leaving the field of federal legislative powers. This is the reason why, for example, the categories "undue pressure", "pestering" and "temptation" could arise as examples of unfair trade practices. On the other hand, "dishonest practices" to be covered by paragraph 7(e) had to occur in relation to a "general scheme" that is concerned with trade as a whole in order to be falling under subsection 91(2) of the *Constitution Act, 1867*. That is why the Federal Courts' attempt to suggest a limited validity of paragraph 7(e) in connection with intellectual property rights is not in the least surprising. Nor is it astonishing that, according to the described constitutional situation, trade practices such as "undue pressure" on or "inducement" of consumers (both of which are considered to contravene the German term "public morals") are dealt with in provincial *Trade Practices and Consumer Protection Acts*²⁸⁸ and are not considered to fall under paragraph 7(e) and thus under federal legislative authority.

²⁸⁸ See again paragraph 4(2)(a) of the *Trade Practice Act* of B.C., R.S.B.C. ch. 406; paragraph 6(1)(e) of the *Act Respecting Unfair and Unconscionable Trade Practices* of Newfoundland, R.S.Nfld. ch. T-7; subparagraph 2(2)(viii) of the *Business Practices Act* of Ontario, R.S.O. ch. B.18; and subsection 60(2) of the *Consumer Protection Act* of Manitoba, R.S.M. 1987, ch. C200.

b) Second reason: The different origin of unfair competition law

Until the Supreme Court's decision, however, the constitutionality of paragraph 7(e) was not an issue. Nevertheless this provision and its term "dishonest practices" - to use the Report's words again - "lay dormant for many years and was not relied upon in practice."²⁸⁹ This reluctance of the courts to freely make use of paragraph 7(e) in order to combat every trade practice they regard to be unfair has a reason in the fact that unfair competition law in its English tradition from its very beginning was closely linked with the protection of trade-marks.²⁹⁰ Although, as Shaw puts it, "the law of Unfair Competition is designed primarily to safeguard the purchasing public from deceptive and fraudulent trade practices"²⁹¹, those trade practices had to occur in connection with trade-marks and their "dishonest" usage. Trade-marks, however, - as has been pointed out - are displayed on the goods or their labels for the purpose of distinguishing the wares from those manufactured by others.²⁹² It follows that a trade-mark represents a right of property in terms of goodwill or reputation of a business. Consequently, "unfair competition *par excellence*"²⁹³, or as it was also called, the "main instance of unfair competition at common law"²⁹⁴, the tort of passing-off, requires the proof that the goods or services for which protection is sought have acquired a sufficient reputation, or when it comes to the

²⁸⁹ *Supra* note 212.

²⁹⁰ See references given *supra* note 52.

²⁹¹ *Supra* note 39.

²⁹² See the definition of "trade-marks" in section 2 of the *Trade-marks Act*.

²⁹³ *Supra* note 180.

²⁹⁴ *Supra* note 181.

shape of a product a “secondary meaning” that distinguishes it from products manufactured by competitors.

As closely connected to the protection of trade-marks and thus proprietary rights, Canadian unfair competition was never and still is not concerned with practices that have nothing or little to do with direct interference with a competitor’s business. Thus, despite the Supreme Court’s assessment that the “common law principles relating to commerce and trade are also for the benefit to the community from free and fair competition”²⁹⁵, business practices like “undue pressure” or “molestation” the prohibition of which are means of protecting the consumer in the first place and of competitors only in the second place have - because of their lack of connection to business proprietary rights - never been considered “unfair” or “dishonest” as described in paragraph 7(e).

On the other hand, as already pointed out, the German term “public moral” was never concerned with the use of trade-marks. On the contrary, unfair competition law from its very beginning was considered to be distinctive from intellectual property protection which was and still is to be obtained from acts other than the *Act Against Unfair Competition*. Thus, although this Act originally was understood to be an instrument to protect the trader against dishonest competitors, the term “public morals” remained open to further interpretation that goes beyond the protection of a businesses reputation and focuses on the consumers’ interests in the first place. Moreover, this way to broaden the

²⁹⁵ See fn 230.

scope of application of § 1 *UWG* was still within in the ambit of the Act's intended application because the prohibition of trade practices that lead to undue pressure on or pestering of customers or to his or her enticement, is still a means of protecting the trader against unfair methods that enable their users to get ahead of them.

c) Third reason: The coexistence of unwritten and written law in Canada's common law jurisdiction?

The judiciary's reluctance to make use of a statutory provision that according to its wording enables the courts to interdict every trade practice they consider to be contravening the idea of competition could have another reason in the coexistence of unwritten and written law in Canada. Whereas paragraphs 7(a) - (d) can be applied in a way that follows precedents in corresponding common law tort or contract cases, there was no common law principle to fill in the blanket clause in paragraph 7(e). Thus, every interpretation and specification of the term "dishonest practices" by the courts would essentially have gone beyond "established" common law doctrines by providing remedies that could not be obtained at common law. Apparently this would have contravened the idea that section 7 is basically a codification of common law principles. In result, it can possibly be argued that the coexistence of common law principles and a provision that in its first four paragraphs basically repeats those principles made the judiciary hesitate to interpret and define the fifth paragraph in a way that is, simply stated, "uncommon". This hesitation by the judiciary is apparently not a new phenomenon as Hutchinson points out that "[o]ne of the most important weapons at the disposal of the judges in interpreting statutes is the presumption that statutory enactments are not considered to change the

common law unless there is a clear contrary intent".²⁹⁶ This assessment is supported by Frank, who observes "that when legislatures changed the rules, our courts, until quite recently, resented it, treated statutes as intrusions and therefore to be so interpreted as to do the least possible to alter the judge-made law".²⁹⁷

To determine whether this is true it is necessary to briefly look again at the more important paragraph 7(b). It has already been pointed out that this provision is generally considered to be the statutory versions of the common law action in passing-off. Nevertheless, the common law doctrine of passing-off and the statutory remedy provided in paragraph 7(b) are not identical.²⁹⁸ While an action in passing-off at common law requires the plaintiff and defendant to be competitors, paragraph 7(b) does not protect

²⁹⁶ *Supra* note 19.

²⁹⁷ *Supra* note 11, at 292. See also Pound, *supra* note 11, at 383 who made in 1908 the following observation: "The courts, likewise, incline to ignore important legislation, not merely deciding it to be declaratory without adducing any reasons, citing prior judicial decisions and making no mention of the statute. Finn, 'Statutes and the Common Law' (1992), 22 W.Austr.L.Rev. 1, at 9-10 provides for two examples of how the interpretation of statutes "was also informed and directed by the common law itself with sometimes curious or unfortunate results", one of which he describes the "emasculatation" of "much of the very purpose of this beneficial legislation." On the other hand, it has been noticed by Gunasekara, 'Judicial Reasoning By Analogy with Statutes: A Heresy or a New Avenue For the Development of the Common Law?', [1993] N.Z.L.J. 446, that "[t]he concepts of judges using legislative precedents (as opposed to judicial ones) in developing the common law may be gaining acceptance in the common law world, albeit slowly", and "that the evolution of judge-made law may be influenced by the ideas of the legislature as reflected in contemporary statutes." An interesting analysis of the relationship between common law and statutes is provided by Calabresi, *A Common Law For the Age of Statutes* (1982), at 101 ff.

²⁹⁸ *The Noshery Ltd. v. The Penthouse Motor Inn Ltd.* (1969), 61 C.P.R. 207, at 214 (Ont.H.C.); *Windmere Corp. v. Charlescraft Corp. Ltd.* (1988), 23 C.P.R. (3d) 60, at 66 (F.C.T.D.); *Sharp Electronics of Canada Ltd. v. Continental Electronic Info. Inc.* (1988), 23 C.P.R. (3d) 330, at 334 (B.C.S.C.).

only the products of a competitor, but is also applicable where wares, services or business in general have been passed off.²⁹⁹ Moreover, every passing-off action at common law is based on the goodwill of a business so that a trader can protect his rights only in the geographical area in which he has a sufficient reputation.³⁰⁰ Paragraph 7(b), on the other hand, grants protection across Canada, even in areas where the trader enjoys no special reputation.³⁰¹

The courts' dealing with paragraph 7(b), however, made the Federal Court in *Windmere Corp. v. Charlescraft Corp. Ltd.*³⁰² state that "[d]espite these obvious differences, the jurisprudence relevant to actions of passing-off at common law has been used quite liberally in s. 7(b) cases." The Federal Court does not give much evidence for its assessment about the judiciary's lack of awareness of the differences between the common law passing-off and its codified version. However, *Asbjorn Horgard A/S v. Gibbs/Nortac Industries*³⁰³, which the court refers to, might be taken as an example of this 'liberal use'. In this case, the Federal Court of Appeal conducts its analysis of the applicability of paragraph 7(b) by describing the characteristic features of the passing-off action at common law.

²⁹⁹ *Windmere Corp. v. Charlescraft Corp. Ltd.*, *supra* note 298, *ibid.*

³⁰⁰ *Windmere Corp. v. Charlescraft Corp. Ltd.*, *supra* note 298, *ibid.*; *World Wide Treasure Adventures Inc. v. T.G.I. Games Inc.*, *supra* note 192, at 214.

³⁰¹ *Windmere Corp. v. Charlescraft Corp. Ltd.*, *supra*, note 298, *ibid.*

³⁰² *Supra* note 298, *ibid.*

³⁰³ *Supra* note 185, at 327 ff.

On the other hand, the reference to a well-established doctrine at common law, the statutory version of which the court deals with, is not surprising, especially when the differences between both of them are not relevant in the particular case.³⁰⁴ Moreover, as pointed out by the British Columbia Supreme Court, given that paragraph 7(b) 'declare[s] in codified form the common law tort of passing-off (...), the common law test will still apply except as necessarily altered by the language used in the code.'³⁰⁵ However, although the Federal Court's statement can hardly be taken as more than a mere allegation that the judiciary tends to mix up the common law tort and its statutory version, the courts' expressed understanding of paragraph 7(b) clearly shows a plain orientation towards the corresponding common law doctrine. Considering the common ground of both types of passing-off, this conclusion is - to stress it again - almost inevitable.

Paragraph 7(e), however, did not express in written form a principle that was already available at common law. Thus, while the courts were standing on firm ground when interpreting and applying paragraphs 7(a) - (d), the "unconstrained" interpretation and specification of "honest practices" would have let the judiciary onto an unknown turf. Moreover, would the close connection between the law of torts and paragraph 7(a) - (c) not necessarily have evoked the impression on the courts' part that giving paragraph 7(e)

³⁰⁴ See e.g. *Eldon Industries Inc. v. Reliable Toy Co. Ltd. and National Sales Incentives Ltd.*, *supra* note 163, at 251 where the Ontario High Court of Justice refers to the plaintiff's suggestion that old section 11 was not a codification of the common law: "I do not think it makes a great deal of difference whether it is or it is not, as far as this case is concerned; (...)"

³⁰⁵ *Westfair Foods Ltd. v. Jim Pattison Industries Ltd.*, *supra* note 193, at 38.

a broad scope of application would create a new kind of tort that is not (yet) known at common law? Since the courts were not quite clear about their suspicion towards paragraph 7(e) and the seemingly unlimited power granted by its general term, this assessment is hardly more than a question. However, there are some indications which seem to support this proposition.

There is, for example, the Supreme Court's conclusion that paragraph 7(e) 'appears ... to be simply a formulation of the tort of conversion'³⁰⁶ As a matter of fact, there is simply not a single clue in the wording of paragraph 7(e) that could presumably lead to that conclusion and it is almost striking how the court tries to establish a link between paragraph 7(e) and a well-known common law principle without a sufficient basis in the text of the provision. Furthermore, there is the fact that the only business practice to which paragraph 7(e) was held to be applicable - breach of confidence and disclosure of trade secrets - is already dealt with in the law of equity. In the absence of a corresponding tort the falling back to equity law is, in fact, the only way to give paragraph 7(e) a limited meaning while still standing on the firm ground of common law. And there is finally the suggestion that to make paragraph 7(e) applicable the "dishonest" act must itself be actionable.³⁰⁷ This understanding of paragraph 7(e) most clearly shows that paragraph 7(e) should not go beyond what is already known, and thus adds nothing to common law.³⁰⁸ In

³⁰⁶ *MacDonald v. Vapour Canada Ltd.*, *supra* note 38, at 16.

³⁰⁷ *Eldon Industries v. Reliable Toy Co. Ltd.*, *supra* note 163.

³⁰⁸ But see, on the other hand, *Vapor Canada Ltd. v. MacDonald*, *supra* note 214, at 22 where the Federal Court of Appeal stated that "s. 7 is not restricted to a prohibition of things that are otherwise illegal". This view was also taken by the Supreme Court of

other words, if there is no action for unfair trade practices at common law, paragraph 7(e) cannot help either. Thus the scope of application of paragraph 7(e) is fixed and limited by common law. The logical conclusion of this view is that paragraph 7(e) was merely to be used to give the Federal Courts jurisdiction in matters that - being governed by common law - originally fall under the jurisdiction of the provincial courts.³⁰⁹

However, whether or not the judiciary's effort to interpret paragraph 7(e) 'in the light of common law' was a reason for the limited scope of application of this provision, the coexistence of common law and statutory law is not an issue in the German civil code jurisdiction. Although the term 'public morals' in § 1 *UWG* goes back to an identical formulation in § 826 of the *Civil Code* which provides for a tortious action and although 'public morals' in both provisions were defined according to the 'sense-decency'-phrase, § 1 *UWG* constitutes a *lex specialis* which means that it replaces in the field of its application the *Civil Code* provisions concerning torts. This being so, there was and still is no need to interpret and § 1 *UWG* within the ambit of the *Civil Code* provisions, and thus to bring both "law" in line.

Canada in *S.&S. Industries Inc. v. Rowell*, *supra* note 163, at 202 where it was stated that to succeed in an action based on section 7 the plaintiff does not need to prove *mala fides*, as what he or she would have been required to do at common law.

³⁰⁹ This seems to be suggested in the editorial note to *Eldon Industries Inc. v. Reliable Toy Co. Ltd.*, *supra* note 244, at 111 with respect to the jurisdiction of the Exchequer Court. The Federal Courts have jurisdiction because of subsection 20(2) of the *Federal Court Act*, R.S.C. 1970, c.10 (2nd Supp.) according to which the Trial Division has concurrent jurisdiction in all cases "in which a remedy is sought under the authority of any Act of Parliament (...)"

In result, although the starting point for both the German and the Canadian general term seemed to be identical, their significance and importance for the unfair competition law in both countries is as distinct as it possibly could be. Both terms started as the implementation of Germany's and Canada's obligation to prohibit acts of competition contrary to honest practices in industrial and commercial matters. Both terms were broad enough to enable the courts to independently adjust the law to a business world that changes its conduct in accordance with technological progress and social degeneration.

However, different concepts with respect to the division of powers, the different understanding of the relationship between unfair competition law and intellectual property law and the coexistence of written and unwritten law in Canada's common law jurisdiction made both terms go in different directions. Thus, the use of the general terms 'public morals' and 'honest practices' in German and Canadian unfair competition law may serve as an excellent example for how seemingly identical provisions can have totally different meanings in a civil code and a common law jurisdiction.

CHAPTER IV: General terms as a means of responding to new business methods

1) Advantages and disadvantages of general terms

It has been pointed out in the first part of this thesis that one of the advantages of judge-made law - whether it is common law in general (as opposed to statutory law), or

‘judiciary law’ as a result of interpretation of statutes - is the fact that it is - as *Cappelletti* puts it - ‘more flexible, more concrete and more adaptable to unforeseeable individual situations than legislation.’³¹⁰ It was a concern of the foregoing chapters to prove this proposition by showing how the scope of protection of one provision containing a blanket-clause could be continuously enlarged by the judiciary because the courts were not obliged to wait for explicit authorization by the legislator. *Cappelletti*, identifies four further advantages of law-making by judges³¹¹: (1) judges are ‘less vulnerable both to demagogic and to local or pressure group values and priorities’³¹²; (2) the courts ‘can add to the overall representativeness of the system by protecting groups that cannot gain access to the political process’³¹³; (3) the ‘courts are in continuous contact with the actual and most concrete problems of society’ that occur to them in form of actual cases instead of theoretical questions³¹⁴; and (4) courts tend to generalize ‘only after a long course of trial and error in the effort to work out a practical principle’.³¹⁵ Interesting enough, at least the first mentioned aspect concerning the vulnerability to demagogic pressure could also be considered as support against judge-made law. In November 1933, for example,

³¹⁰ *Supra* note 11, at 47.

³¹¹ See the summary provided by McHugh, *supra* note 11, at 117.

³¹² *Supra* note 11, at 49. This is also emphasized by Mosk, ‘The Common Law and the Judicial Decision-Making Process’, (1988), 11 Harv.J.L. & Publ.Pol. 35, at 40-41: ‘There is a substantial portion of society that expects courts to be responsive to public opinion. The executive branch of government and the legislative branch of government must harken to the will of the majority, why not the third branch of government, the judiciary? (...) But do we really want a judge to decide the innocence or guilt of an individual, or whether the constitutionally guaranteed rights of an unpopular religious, political or racial group are to be curtailed, on the basis of public opinion? I would suggest that the courts must be prepared to protect the rights of an individual against public opinion.’

³¹³ *Supra* note 11, at 54.

³¹⁴ *Supra* note 11, at 56.

the Higher Regional Court of Appeal in Cologne (*Oberlandesgericht Köln*) had the courage to hold that the reference to the "race" of a competitor contravened "public morals" as described in § 1 *UWG* and constituted an unfair trade practice.³¹⁶ In January 1935, however, the *Reichsgericht* expressed the opinion that the reference to the "political views" of a competitor could be justified if it allowed some conclusions as to the "trustworthiness in business matters".³¹⁷ This most plainly shows how a statutory blanket-clause can be filled by the courts just as they see it fit in the political landscape.³¹⁸ Furthermore, also *Cappelletti's* second positive assessment of the courts' role in protecting groups that cannot gain access to the political process can be seen as a disadvantage. The fact that it is a panel of three to five judges, or often only one judge, who defines "morals" or "honesty" involves the danger that the ethical views of a handful of people become decisive in a society which may not share this view³¹⁹ - a danger that does arise when law is made by a legislative body that is supposed to represent the majority in a society and thus the ruling or - as one might also say - "common" understanding of "morality". This aspect has made *Baumbach* make his well-known ironical statement that only those trade practices violate "public morals" that contravene the sense of decency of senior judges who actually never ever got to know practical

³¹⁵ *Supra* note 11, at 51.

³¹⁶ *GRUR* 1934, 202.

³¹⁷ *GRUR* 1935, 445, at 447. Both cases are mentioned by Nordmann, *supra* note 32, at 628.

³¹⁸ See Nordmann, *supra* note 32, *ibid.*

³¹⁹ See von Godin, *supra* note 80, at 128/129, and Vogt, *supra* note 77, at 730, who state that the courts' interpretation of "public morals" should not be based of the sense of decency of the average people because - according to both of them - the average lacks "class" or "style" (*Niveau*).

business life.³²⁰ Finally, according to its task being subject to continuous changes, judge-made law is certainly more unpredictable than statutory law “where there must be the presumption that Parliament has said all it wanted to say on a particular topic.”³²¹

However, when it comes to the question as to whether or not the legislator ought to use a blanket-clause instead of regulating a subject-matter in detail, the need to weigh the advantages and disadvantages of general terms is not the only issue that has to be considered. Neither the legislator’s decision to refrain from a detailed regulation nor the courts’ freedom to replace the legislator are unrestricted. A provision in a *Criminal Code*, for example, that would provide that “unsociable conduct shall be punished” is as much unthinkable as the judiciary’s interpretation of a general term that would deprive the individual of his or her fundamental right to dignity or physical integrity. The crucial questions therefore are what are the limits to the legislator’s use of blanket-clauses and what restrictions do the courts face when they interpret a blanket-clause.

2) The influence of constitutional law

a) The constitutional doctrine of vagueness

The limits to the legislator’s decision to refrain from a detailed enactment by using a general term that is open to a varied interpretation are set by the constitutional principle of vagueness. In Germany this so-called *Bestimmtheitsgrundsatz* (principle of clarity and

³²⁰ See e.g. Sack, *Das Anstandsgefühl aller billig und gerecht Denkenden und die Moral als Bestimmungsfaktoren der guten Sitten*, NJW 1985, 761, at 764.

³²¹ See again Richardson, *supra* note 11.

definiteness) is a constituent element of the so-called *Rechtsstaat* (rule of law³²²) idea that is expressed and embodied in Art. 20 (3) *GG*.³²³ This principle basically requires the legislator to draft its statutes so precisely as to enable those who are addressed and affected by them to understand what standards of conduct are set and thus expected from them. If a statutory provision does not meet this requirement it violates the *Bestimmtheitsgrundsatz*, thus the *Rechtsstaat* principle, and thus the constitution. As a result it has to be considered invalid and must not be applied by the courts. This, however, does not mean that the German legislator is not at all allowed to use general terms in its statutes. The *Bundesverfassungsgericht* (*BVerfG* - Federal Constitutional Court) has pointed out that the *Bestimmtheitsgrundsatz* does not prohibit the use of general terms as long as those who are subjected to the regulation can - without depending on special knowledge - ascertain its content with a sufficient degree of certainty.³²⁴ Moreover, imprecise terms do not give cause for concern if their content, purpose and scope of application have been clarified by the judiciary over many decades so that their meaning is sufficiently defined.³²⁵

³²² This translation is suggested by Blaau, "The *Rechtsstaat* Idea Compared with the Rule of Law as a Paradigm for Protecting Rights" (1990), 107 S.Afr.L.J. 76; and by Clark, "The Selection and Accountability of Judges in West Germany: Implementation of a *Rechtsstaat*" (1988), 61 S.Cal.L.Rev. 1797, at 1832 ("state based on the rule of law"). However, it should be borne in mind that, as Blaau points out, these concepts are not identical.

³²³ See the summary and description of the *Rechtsstaat* idea given by Blaau, *supra* note 322, at 80-82. The *Bestimmtheitsgrundsatz* would fall under heads (d) and (g) of the enumerated essential components that he describes as being associated with the formal concept of the *Rechtsstaat*.

³²⁴ See the references provided by Schmidt-Bleibtreu/Klein, *Kommentar zum Grundgesetz*, 8th edition (1995), Art. 20 annot. 25.

³²⁵ See e.g. *BVerfGE* 54, 143.

In Canada the question of vagueness was initially addressed only as to regulations and by-laws and thus to provisions which were enacted by an administrative body in the exercise of a legislative power that had been delegated to it by the legislator. One of the principles that are considered to rule the sub-delegation of power is described as directing that '[w]hen it establishes general standards of behaviour, the regulation-making authority must set them out with some degree of precision and detail so as to allow persons affected to know the exact terms of their rights and obligations.'³²⁶ If this requirement is not met, which depends on whether a 'reasonably intelligent' person, 'sufficiently well-informed' if the provision in question is technical, 'is unable to determine the meaning of [it]' and act accordingly, the provision can be annulled by reason of vagueness.³²⁷

The enactment of the *Canadian Charter of Rights and Freedoms*³²⁸, however, brought a new constitutional dimension to the doctrine of vagueness. Prior to the *Charter*, the doctrine of vagueness could be seen as based on the 'rule of law' principle.³²⁹ According

³²⁶ Dussault/Borgeat, *Administrative Law, A Treatise*, 2nd ed., vol. 1 (1985), at 422.

³²⁷ *City of Montreal v. Arcade Amusements Inc.*, [1985] 1 S.C.R. 368, at 400.

³²⁸ The *Charter of Rights and Freedoms* comprises ss. 1-34 of the *Constitution Act, 1982* [enacted by the *Canada Act, 1982* (U.K.) c. 11, Sched. B].

³²⁹ See e.g. Trotter, 'LeBeau: Toward a Canadian Vagueness Doctrine' (1988), 62 C.R. (3d) 183, at 188 ('principle of legality'); Nitikman, 'Is GAAR Void for Vagueness?' (1989), 37 Can. Tax J. 1409, at 1424-26; *Committee for the Commonwealth of Canada v. Canada*, [1991] 1 S.C.R. 139, at 210. The rule of law principle is now explicitly protected by the preamble to the *Charter* which reads: 'Whereas Canada is founded upon principles that recognize the supremacy of God and the rule of law'. However, although the *Constitution Act, 1867* did not explicitly refer to this principle, the rule of law was considered to be implicitly guaranteed by the preamble to [it] in its reference to a constitution similar in Principle to that of the United Kingdom'; see *Vanguard Coatings and Chemicals Ltd. v. The Queen* (1988), 88 DTC 6375, at 6377 (F.C.A.) and the references given there. According to the Supreme Court (*Reference re Language Rights*

to Trotter³³⁰, Canadian courts 'have treated the doctrine as something foreign or alien, purely a creation of American constitutional law.' Therefore, is not surprising to notice that, even after the enactment of the *Charter*, the Ontario Court of Appeal in *Regina v. Morgentaler, Smoling and Scott*³³¹ stated that '[c]ounsel was unable to give the court any authority for holding a statute void for uncertainty'.³³² Neither is it astonishing that the Federal Court, Trial Division held that "there is no power in the Court to hold that provision or any other enactment or statute void for uncertainty only, in the absence of a Charter issue."³³³ However, after the enactment of the *Charter* the courts took a closer look at the "void for vagueness" doctrine. In 1983, the Ontario High Court of Justice as one of the first dealt with the problem of vagueness and held that any law that is "vague, undefined and totally discretionary" cannot be considered "law" at all and thus cannot set limits to the rights and freedoms guaranteed by the *Charter*.³³⁴ Thus, identifying the problem of vagueness as falling under the 'limits prescribed by law' - clause in section 1 of the *Charter*, the court hastened to add that a vague provision is not necessarily void but

under Section 23 of the Manitoba Act, 1870, and Section 133 of the Constitution Act, 1867 [1985] 1 S.C.R. 721, at 748/9) the rule of law principle "must mean at least two things. First that the law is supreme over officials of the government as well as private individuals, and thereby preclusive of the influence of arbitrary power" and second, "the obligation to create and maintain an actual order of positive laws which preserves and embodies the more general principle of normative order."

³³⁰ *Supra* note 329, at 188.

³³¹ (1985), 22 C.C.C. (3d) 353, at 388.

³³² But see also *R.V.P. Enterprises Ltd. v. A.-G. British Columbia* (1988), 25 B.C.L.R. (2d) 219, at 228, where the Court of Appeal points out that this statement cannot be taken as an indication that the Ontario Court of Appeal rejected the void of vagueness doctrine.

³³³ *Vanguard Coatings and Chemicals Ltd. v. The Minister of National Revenue* (1986), 86 DTC 6552, at 6565.

³³⁴ *Re Ontario Film and Video Appreciation Society and Ontario Board of Censors* (1983), 41 O.R. (2d) 583, at 585.

'may be said to be 'of no force or effect', but (...) may be rendered operable by the passage of regulation pursuant to the legislative authority, or by the enactment of statutory amendments, imposing reasonable limits and standards'.³³⁵ In 1984 the Ontario Court of Appeal saw the question of uncertainty connected with the 'fundamental justice' requirement in section 7 rather than with section 1 of the *Charter* and held that an offence (in this particular case the offence of contempt) is not "open to attack as a violation of section 7 of the Charter on the grounds of uncertainty".³³⁶ An attempt to explain the relationship between vagueness on the one hand, and sections 1 and 7 of the *Charter* on the other hand, was then undertaken by the British Columbia Supreme Court in 1984. In *Regina v. Robson*³³⁷ the court held that a provincial legislation providing that a peace officer may require a motorist to surrender his or her driver's licence for a 24-hour period where the officer suspects the driver to have consumed alcohol may in view of its vagueness well be a deprivation of liberty that is not in accordance with the principle of fundamental justice. The 'real question', however, was seen to be arising under section 1 of the *Charter*, "i.e. whether such a law is a reasonable limit which can be demonstrably justified", because "[a] law cannot be at once contrary to the provisions of fundamental justice, and at the same time a reasonable limit on the right guaranteed within the meaning of s. 1 of the Charter".³³⁸

³³⁵ *Ibid.*

³³⁶ *Regina v. Cohn* (1984), 15 C.C.C. (3d) 151, at 164.

³³⁷ (1984), 11 D.L.R. (4th) 727. But see also *Regina v. Robson* (1985), 19 C.C.C. (3d) 137, where the British Columbia Court of Appeal did not follow this view.

³³⁸ *Ibid.*, at 145.

These three early decisions show three different approaches which can be taken to bring the question of vagueness into a *Charter*-context. Firstly, it is possible to consider law that is too vague as not being "law" at all and thus being unable to limit rights and freedoms guaranteed by the *Charter*. Secondly it can be argued that vague law is not a *reasonable* law as required in section 1 of the *Charter*. Thirdly, uncertain law can be seen as violating the principle of fundamental justice.³³⁹ In the following years all these approaches were accepted by various courts. The Federal Court of Appeal preferred the "reasonable limit" approach, and stated that a "limit which is vague, uncertain or subject to discretionary determination is, by the fact alone, an unreasonable limit".³⁴⁰ - a view that was shared by the Nova Scotia Supreme Court³⁴¹ and the Ontario Court of Appeal.³⁴² The question whether a provision that is too vague does constitute a "limit prescribed by law" was asked by the Supreme Court of Canada three times³⁴³, whereas the British Columbia Court of Appeal took the view that a vague and imprecise language of a statute is able "to render it a law contrary to the principles of fundamental justice"³⁴⁴. This "section 7" approach

³³⁹ For the different approaches see also Trotter, *supra* note 329; Nitikman, *supra* note 329; Stuart, "The Canadian Void for Vagueness Doctrine Arrives with No Teeth" (1990), 77 C.R. (3d) 101.

³⁴⁰ *Luscher v. Deputy Minister, Revenue Canada, Customs and Excise*, [1985] 1 F.C. 85, at 86; *Osborne v. Canada*, [1988] 3 F.C. 219, at 221.

³⁴¹ *Regina v. Nova Scotia Pharmaceutical Society* (1990), 32 C.P.R. (3d) 259, at 261.

³⁴² *Regina v. Zundel* (1987), 31 C.C.C. (3d) 97, at 126.

³⁴³ *Irwin Toy Ltd. v. A.-G. Québec*, [1989] 1 S.C.R. 927, at 980-83; *Canada (Human Rights Commission) v. Taylor*, [1990] 3 S.C.R. 892, at 955; *Committee for the Commonwealth of Canada v. Canada*, *supra* note 329, at 143.

³⁴⁴ *R.V.P. Enterprises Ltd. v. British Columbia (Minister of Consumer and Corporate Affairs)*, *supra* note 332, at 224. Similar: *Regina v. Rowley* (1986), 31 C.C.C. (3d) 183 (B.C.C.A.).

was also taken by the Ontario Court of Appeal in *Regina v. LeBeau*³⁴⁵, by the Supreme Court in *Reference Re ss. 193 and 195.1 (1)(c) of the Criminal Code (Man.)*³⁴⁶ and by the Nova Scotia Supreme Court in *Regina v. Nova Scotia Pharmaceutical Society*.³⁴⁷ In other cases the different approaches were taken in various combinations. In *Osborne v. Canada (Treasury Board)*³⁴⁸ and *Regina v. Butler*³⁴⁹ the Supreme Court acknowledged that '[v]agueness can have constitutional significance in at least two ways in a s. 1 analysis', namely with respect to the 'limit prescribed by law' clause and the 'reasonable limit' requirement. The Ontario Provincial Court held that law which is too vague does not fall under the 'prescribed by law' expression **and** violates section 7 of the *Charter*. The British Columbia Court of Appeal focused on section 7 of the *Charter* but also argued that '[t]he fact that the terms of a statute are not capable of precise definition is not itself a reason for holding that the statute does not disclose an offence known to law' - a statement that suggests a "prescribed by law" approach.

The courts under these various approaches were unanimous in the assessment that the doctrine of vagueness is to be distinguished from the problem of overbreadth. The relationship between vagueness and overbreadth was expounded by the Ontario Court of Appeal the explanation of which is generally considered to be the 'leading' authority. In

³⁴⁵ (1988), 41 C.C.C. (3d) 163.

³⁴⁶ [1990] 1 S.C.R. 1123, at 1141 ("vagueness should be recognized as a principle of fundamental justice").

³⁴⁷ (1991), 36 C.P.R. (3d) 173.

³⁴⁸ [1991] 2 S.C.R. 69, at 94.

³⁴⁹ [1992] 1 S.C.R. 452, at 490.

*Regina v. Zundel*³⁵⁰ the court stated: "Vagueness and overbreadth are two concepts. They can be applied separately, or may be closely interrelated. The intended effect of a statute may be perfectly clear and thus not vague, and yet its application may be overly broad."³⁵¹ Thus overbreadth is not a matter of imprecise language in a statute but rather a question of whether or not a statute that restricts a right guaranteed by the *Charter* stays within the ambit of what is necessary to accomplish the goal the legislator wants to achieve. This question has become known as the "minimal impairment" branch of the so-called *Oakes* test, developed by the Supreme Court in *Regina v. Oakes*.³⁵²

In 1992, the Supreme Court eventually undertook the effort to explain the doctrine of vagueness in detail. In *Regina v. Nova Scotia Pharmaceutical Society*³⁵³ the Supreme Court decided on the question whether the term "unduly" in section 32 of the *Combines Investigation Act* was impermissibly vague. Having analyzed the different approaches taken by the courts to anchor the doctrine of vagueness under the *Charter*, the Supreme Court first focused on overbreadth by explaining: that overbreadth must not be confused with vagueness³⁵⁴; overbreadth is subsumed under the "minimal impairment branch" of the

³⁵⁰ *Supra* note 342, at 125.

³⁵¹ Followed in *Regina v. Nova Scotia Pharmaceutical Society* (1992), 43 C.P.R. (3d) 1, at 17 (S.C.C.); *Regina v. LeBeau*, *supra* note 345, at 171; *Reference re ss. 193 and 195.1(1)(a) of the Criminal Code (Man.)*, [1990] 1 S.C.R. 1123, at 1154; *Committee for the Commonwealth of Canada v. Canada*, *supra* note 329, at 215. Similar: *Regina v. Keegstra*, [1990] 3 S.C.R. 697, at 818. see also Nitikman, *supra* note 329, at 1424.

³⁵² (1986), 26 D.L.R. (4th) 200.

³⁵³ *Supra* note 351.

³⁵⁴ At 15.

Oakes test³⁵⁵; it is always related to some limitation under the Charter” by always being “established by comparing the ambit of the provision touching upon a protected right with such concepts as the objectives of the state, the principle of fundamental justice, the proportionality of punishment (...)”³⁵⁶; and that “[t]here is no such thing as overbreadth in the abstract” because overbreadth is “no more than an analytical tool” without any “autonomous value under the Charter”.³⁵⁷

With respect to the doctrine of vagueness the Supreme Court made clear that under the *Charter* it would consider the doctrine as “a single concept, whether invoked as a principle of fundamental justice under s. 7 of the Charter or as part of s. 1 *in limine*”, and that “from a practical point of view this makes little difference in the analysis, since a consideration of s. 1 *in limine* would follow immediately the determination of whether s. 7 has been violated.” In concluding that “[f]rom a theoretical perspective, the justifications invoked for the doctrine of vagueness under both s. 7 and s. 1 are similar” the court eventually accepted both sections 1 and 7 of the *Charter* as possible and arguable grounds to render impermissibly vague provisions null and void. Thus the Supreme Court more or less followed the British Columbia Supreme Court in *Regina v. Robson* which had emphasised that a “law cannot be at once contrary to the provision of fundamental justice, and at the same time a reasonable limit on the right guaranteed within the meaning of

³⁵⁵ At 16.

³⁵⁶ *Ibid.*

³⁵⁷ *Ibid.*

section 1 of the Charter”.³⁵⁸ However, instead of taking the view that a law that is too vague cannot constitute a *reasonable* limit, the Supreme Court only referred to the “prescribed by law” clause in section 1³⁵⁹ and thus apparently favours the proposition that impermissibly vague law does not constitute law at all.

Having anchored the doctrine of vagueness in the *Charter*, the courts had to determine how vague a law can be in order to be still valid. The starting point for the answer to this question is what purpose the doctrine of vagueness serves. As pointed out by the Supreme Court, two rationales have been adopted as the theoretical foundations of the doctrine of vagueness, namely, “fair notice to the citizen” and “limitation of enforcement discretion”.³⁶⁰ According to the Supreme Court, “[f]air notice may not have been given when enactments are in somewhat general terms, in a way that does not readily permit citizens to be aware of their substance, when they do not relate to any element of the substratum of values held by society”.³⁶¹ In other words, “law ... must prescribe the proscribed conduct clearly, in order that the citizen may know what cannot be done”.³⁶²

As to the second rationale the Supreme Court saw the crux of the concern for limitation of enforcement discretion in that “law must not be so devoid of precision in its content that a

³⁵⁸ *Supra* note 337.

³⁵⁹ At 18.

³⁶⁰ *Ibid.*

³⁶¹ At 20.

³⁶² *Regina v. Glassman* (1985), 53 C.R. (3d) 164, at 183 (Ont.Prov.Ct.); similar: *Committee for the Commonwealth of Canada v. Canada*, *supra* note 329, at 143; *Regina v. Keegstra*, *supra* note 351, at 771; *Regina v. LeBeau*, *supra* note 345, at 163.

conviction will automatically flow from the decision to prosecute". The court concluded that "[w]hen the power to decide whether a charge will lead to conviction or acquittal, normally the preserve of the judiciary, becomes fused with the power to prosecute because of the wording of the law, then law will be unconstitutionally vague."³⁶³ With this statement the court expressed in a similar way what it had already asked in *Reference re ss. 193 and 195.1(1)(a) of the Criminal Code (Man.)*³⁶⁴, namely, whether a "statute [is] so pervasively vague that it permits a 'standardless sweep' allowing law enforcement officials to pursue their personal predilections."

Apart from these two generally acknowledged rationales for the doctrine of vagueness a third more pragmatic one was occasionally added. In *Irwin Toy Ltd. v. A.-G. Québec*³⁶⁵ the Supreme Court, after recognizing that "[a]bsolute precision in law rarely exists", asked the question "whether the legislature has provided an intelligible standard according to which the judiciary must do its work" and whether the courts were able to give the impugned provision a "sensible interpretation".³⁶⁶ Thus it seems that not only is it necessary that the citizens know what kind of conduct is expected from them; but also the

³⁶³ At 20-21.

³⁶⁴ *Supra* note 351, at 1157; similar: *Regina v. Rowley*, *supra* note 344, at 186, where the test was whether the statute "encourages arbitrary and erratic arrests and convictions."

³⁶⁵ *Supra* note 343, at 983.

³⁶⁶ This question was adopted in *Osborne v. Canada*, *supra* note 340, at 96; *Canada (Human Rights Commission) v. Tayler*, *supra* note 343, at 955; *Irwin Toy Ltd. v. A.-G. Québec*, *supra* note 343, at 983. Similar *Regina v. Nova Scotia Pharmaceutical Society*, *supra* note 351, at 26: "The doctrine of vagueness can therefore be summed up in this proposition: a law will be found unconstitutionally vague if it so lacks in precision as not to give sufficient guidance for legal debate". The latter decision was affirmed by *Ruffo v. Conseil de la Magistrature* (1995), 130 D.L.R. (4th) 1, at 43 (S.C.C.).

judiciary must know what to make of a provision. It follows that certainty is not only an issue for those who are subjected to statutory regulation but also for those who are supposed to apply the statutes and to determine whether the regulation has been complied with.

However, the question **when** a citizen cannot be sure what kind of conduct is expected from him or her; **when** a court cannot provide a ‘sensible interpretation’; and **when** law enforcement officials are enabled to pursue their personal predilections remains open. There is probably no way to answer this in abstract. However, the courts do have some guiding rules. In order to determine whether a statute is impermissibly vague, the courts look not only at ‘the bare words of the statutory provision but, rather, to the provision as interpreted and applied in judicial decisions.’³⁶⁷ In result a provision is not impermissibly vague if it had been defined by the judiciary in previous cases, and had been given a certain ‘sensible’ meaning that can serve as a basis for further interpretation. This practice, however, made *Trotter* point out, that it ‘essentially transforms the criterion from ‘men of common intelligence’ to jurists of unusual diligence’³⁶⁸, and that ‘reliance on previous judicial decisions deprives the doctrine of any realistic application with respect to fair notice’³⁶⁹ *Trotter*’s critique is supported by *Stuart*, who states that the ‘emphasis on clarification through prior judicial interpretation (...) focus[es] too much on specialist legal

³⁶⁷ *Regina v. LeBeau*, *supra* note 345, at 173.

³⁶⁸ *Supra* note 329, at 187.

³⁶⁹ At 191.

knowledge”³⁷⁰ and that “[t]o allow judicial interpretation to (...) vague laws is indeed contrary to the principle of *nullem crimen* [*sine lege; nulla poena sine lege*], which prohibits the retroactive definition of criminal offences.”³⁷¹

This is not the place to discuss this controversy. For the purpose of this thesis I think it sufficient to add that, although I principally share *Trotter's* and *Stuart's* concern, one should bear in mind that the wording of almost every criminal provision is open to a varied interpretation. What must be decisive is the common understanding of the words based on the legislator's intention. This is the “men of common intelligence” test, referred to above. However, someone has to determine what the “man of common intelligence” thinks when he reads the statute. There will certainly not be a survey on the streets conducted to find this out. It is the judges who are to determine how “men of common intelligence” can and must understand a provision that proscribes certain behaviour. This was actually done in *Regina v. Red Hot Video Ltd.*³⁷² where the British Columbia Court of Appeal dealt with the term “obscenity” and its definition in the *Criminal Code*. The court pointed out that “[t]he test of obscenity as interpreted by the courts is whether the accepted standards of tolerance in the contemporary Canadian community have been exceeded” and that “[t]he courts have had no difficulty in applying the community standards test”. That is to say, it is the courts which determine what kind of conduct exceeds the accepted standards of tolerance. Conduct that does exceed these accepted standards consequently is supposed to

³⁷⁰ *Supra* note 339, at 108.

³⁷¹ At 109.

³⁷² (1985), 18 C.C.C. (3d) 1 (B.C.C.A.).

be "obscene" in the eyes of the contemporary Canadian community, which is nothing else but the aggregate of "men of common intelligence". The point is that the average person of common intelligence is a fiction anyway; a fiction that will never be able to go to court and expresses what it thinks when it reads the statute. When the courts speak "on its behalf" they use it as a tool to determine the common intelligence as they see it. The shift from the "men of common intelligence to jurists of unusual diligence", therefore, might not be as big as *Trotter* and *Stuart* see it.

Furthermore, once the judiciary can look at a larger period of interpretation and a large number of cases that had already been provided for the definition of a broad term the situation is hardly distinct from a detailed regulation. Everybody who deals with juridical texts, especially with statutory provisions that provide for a detailed regulation, whatever the subject-matter might be, will probably agree that someone who is not trained to read them will hardly be able to understand them completely. For the person of common intelligence it makes no difference whether he or she does not understand the judiciary's interpretation of a statute or the statute itself. In either case "ignorance of law is no excuse".³⁷³ Of course the main concern of relying in clarification through prior judicial interpretation is that it must not be the task of the judiciary to determine what conduct shall be punished. This is definitely reserved to Parliament.³⁷⁴ However, clarification does

³⁷³ As embodied in section 19 of the *Criminal Code*.

³⁷⁴ But see *Regina v. Cohn*, *supra* note 336, where the Ontario Court of Appeal decided on the question whether the offence of contempt of court was impermissibly vague. The problem was "that the *Code* does not specifically provide for or define any such offence nor does it set forth any procedure for the prosecution of such offence or any penalty

not mean that the citizen will necessarily be confronted with unforeseeable results. Rarely will a citizen be in a situation where he or she is found guilty by a court of an offence that he or she could never ever have imagined to be prohibited. If a law is that vague and gives the judiciary that much discretionary power it indeed violates the principle of *nullum crimen sine lege*.

In order to determine whether a law is impermissibly vague the courts also consider the context in which it appears.³⁷⁵ This gives less cause for concern as this is a well-established approach to interpret a term in a statute (so-called systematical interpretation). This finally leads back again to 'honest practices' in paragraph 7(e) of the *Trade-marks Act*, which was also placed in a broader context provided by paragraphs 7(a)-(d). As could be seen the judiciary's dealing with the doctrine of vagueness focuses almost exclusively on criminal provisions. However, as the Supreme Court pointed out, the above-mentioned standards as to whether a law is unconstitutionally vague 'applie[s] to all enactments, irrespective of whether they are civil, criminal, administrative or other. The citizen is entitled to have the state abide by constitutional standards of precision whenever it enacts legal dispositions.'³⁷⁶ But what could these standards mean for the term "dishonest practices"? When *MacDonald v. Vapour Canada Ltd.* was decided, in 1976, the Supreme

following conviction therefor" (at 156). Nevertheless, the court held that the offence was not too vague because 'the common law has provided a satisfactory definition' which followed that 'such behaviour [in this case: the refusal of a witness to testify] has been held to be contempt of court for over a century, and the witness (...) could not in any way be uncertain as to the nature of the offence (...)'

³⁷⁵ *Regina v. LeBeau*, *supra* note 345, at 172.

³⁷⁶ *Regina v. Nova Scotia Pharmaceutical Society*, *supra* note 351, at 25.

Court had not yet expounded a doctrine of vagueness as described above. The principles and standards which were later applied to "unduly"³⁷⁷, "obscenity"³⁷⁸, "gross indecency"³⁷⁹, "offence of contempt"³⁸⁰, the ban on commercial advertising directed at children³⁸¹, "engage in work"³⁸², "incident"³⁸³, communications which are likely to incite racial hatred³⁸⁴, "holding area"³⁸⁵, "health"³⁸⁶, "communications in public for the purpose of prostitution" and "keeping of common bawdy-houses"³⁸⁷, "wilfully promoting hatred against any identifiable group by communicating statements other than private

³⁷⁷ "Conspiracy to lesson competition unduly" in section 32(1)(c) and (1,1) of *Combines Investigation Act*; *Regina v. Nova Scotia Pharmaceutical Society*, *supra* notes 341, 347 and 351.

³⁷⁸ As used and described in section 159 of the *Criminal Code*; *Regina v. Red Hot Video Ltd.*, *supra* note 372. For the question whether or not the term "obscenity" and its definition provided by the section 159 is impermissibly vague, see *Pelletier v. Regina* (1985), 49 C.R. (3d) 253, where the Québec Superior Court, at 254, stated: "Although these words are somewhat vague, there is no other conceivable language by which a civilized society could describe these types of prohibited conduct."

³⁷⁹ Section 157 of the *Criminal Code*, R.S.C. 1970, c. C-34; *Regina v. LeBeau*, *supra* note 345 and section 163 of the *Criminal Code*, R.S.C. 1985, c. C-46; *Regina v. Butler*, *supra* note 349.

³⁸⁰ At common law; *Regina v. Cohn*, *supra* note 336.

³⁸¹ As proscribed in sections 248 and 249 of the *Consumer Protection Act* of Québec, R.S.Q. c. P-40.1; *Irwin Toy Ltd. v. A.-G. Québec*, *supra* note 343.

³⁸² In paragraph 32(1)(a) of the *Public Service Employment Act*, R.S.C. 1970, c. P-32; *Osborne v. Canada*, *supra* note 340.

³⁸³ As used in subsection 62(1) of the *Motor Vehicle Act* (B.C.), R.S.B.C. 1979, c. 288; *Regina v. Rowley*, *supra* note 344.

³⁸⁴ As prohibited in subsection 13(1) of the *Canadian Human Rights Act*, S.C. 1976-77; *Canada (Human Rights Commission) v. Taylor*, *supra* note 343.

³⁸⁵ Where the serving of liquor to a patron is prohibited under subparagraph 17(2)(e)(iv) of the *Liquor Control and Licensing Act*, R.S.B.C. 1979, c. 237; *R.V.P. Enterprises v. A.-G. British Columbia*, *supra* note 332.

³⁸⁶ In the abortion provision of paragraph 251(4)(c) of the *Criminal Code*, R.S.C. 1970, c. C-34; *Regina v. Morgentaler*, *supra* note 331.

³⁸⁷ As prohibited under sections 193 and 195.1(1)(c) of the *Criminal Code*, R.S.C. 1970, c. C-34; *Reference re ss. 193 and 195.1(1)(c) of the Criminal Code (Man.)*, *supra* note 351.

conversations”³⁸⁸, “any business or undertaking, commercial or otherwise”³⁸⁹, “disgusting”³⁹⁰, “immoral” and “indecent”³⁹¹, the requirement to surrender a driver’s licence where an officer suspects the consumption of alcohol³⁹², the censorship scheme for films³⁹³, the offence of “spreading false news”³⁹⁴, the determination of fair price³⁹⁵, the offence of “tax evasion”³⁹⁶, and “the duty to act in a reserved manner”³⁹⁷ were not yet elaborated. That is why it is not surprising that the Supreme Court in its *MacDonald* decision contented itself with succinctly stating that “[i]ts [paragraph 7(e)] vagueness is not, of course, a ground of constitutional validity”³⁹⁸. It remains unclear whether the Supreme Court was saying that the term “honest practices” was not too vague or simply

³⁸⁸ Prohibited under section 319(2) of the *Criminal Code*, R.S.C. 1985 c. C-46; *Regina v. Keegstra*, *supra* note 351.

³⁸⁹ Prohibited on airports under subsection 7(a) of the *Government Airport Concession Operations Regulations*, SOR/79-373; *Committee for the Commonwealth of Canada v. Canada*, *supra* note 329.

³⁹⁰ As used in paragraph 159(2)(b) of the *Criminal Code*, R.S.C. 1970, c. C-34; *Regina v. Glassman*, *supra* note 362.

³⁹¹ Prohibition of printed works of immoral or indecent character under section 14 of the *Customs Tariff*, R.S.C. 1970, c. C-41, Schedule C, tariff item 99201-1; *Luscher v. Deputy Minister, Revenue Canada, Customs and Excise*, *supra* note 340.

³⁹² Provided by subsection 214(2) of the *Motor Vehicle Act (B.C.)*, R.S.B.C. 1979, c. 288; *Regina v. Robson*, *supra* note 337.

³⁹³ Provided by sections 3, 35 and 38 of the *Theatres Act*, R.S.O. 1980, c. 498; *Re Ontario Film and Video Appreciation Society and Ontario Board of Censors*, *supra* note 334.

³⁹⁴ As prohibited under section 177 of the *Criminal Code*, R.S.C. 1970, c. 34; *Regina v. Zundel*, *supra* note 350.

³⁹⁵ Pursuant to section 34 of the *Excise Tax Act*, R.S.C. 1970, c. E-13; *Vanguard Coatings and Chemicals Ltd. v. The Queen*, *supra* note 333.

³⁹⁶ As prohibited under paragraph 239(1)(d) of the *Income Tax Act*, S.C. 1970-71-72, c. 63; *The Queen v. Print Three Inc.* (1988), 88 DTC 6315 (Ont.Prov.Ct.).

³⁹⁷ As proscribed in art. 8 of the *Judicial Code of Ethics*, O.C. 643-82, 114 G.O.Q. 1982.II.1253 - R.R.Q. 1981 (Supp.), c. T-16, r.4.1; *Ruffo v. Conseil de la Magistrature*, *supra* note 366.

³⁹⁸ *Supra* note 38, at 15.

ascertain that there was no doctrine of vagueness that could render a vague provision null and void. And it is equally uncertain whether the court that so accurately dealt with vagueness in its *Nova Scotia Pharmaceutical Society* decision³⁹⁹ would stick to this assessment after the enactment of the *Charter* had led to the development of the doctrine of vagueness. However, it is also idle to speculate about this since paragraph 7(e) is unconstitutional anyway. The foregoing discussion identifies the limits which the *Charter* and the doctrine of vagueness set to the use of general terms. It shows that a legislator who (within its legislative authority) decides to use a term such as 'honest practices' in a statute which focuses on the prevention of unfair trade practices must take into account that the term is at least vulnerable in that there is a possibility that it may be challenged on the grounds of section 1 and 7 of the *Charter* and claimed to be unconstitutionally vague.

b) Interpretation in the light of *Charter* rights

Not only does the *Charter* influence the legislator's decision to refrain from a detailed regulation and to use a general term instead, it can also restrict the courts' freedom to interpret a general term. This is obvious when (permissibly) broad terms in a *Criminal Code* are to be interpreted, but needs explanation when general terms are used in statutes which regulate the relationship between private parties. This is because a *Charter of Rights* is usually designed to bind governments not individuals.⁴⁰⁰ *Charter* rights therefore are generated to protect the citizen against state authorities and not against other citizens.

³⁹⁹ *Supra* note 351.

⁴⁰⁰ See, e.g., for Canada: Tarnopolsky/Beaudoin, *The Canadian Charter of Rights and Freedoms* (1982), at 44; see, e.g., for Germany: *BVerfGE* 7, 198.

The growing influence of the "*Charter*"⁴⁰¹ in Germany, however, did not spare the civil law. In its famous landmark decision, the so-called Lüth-judgment, the *Bundesverfassungsgericht* provided for the basis for this "invasion" of *Charter* rights into the relationship between individuals. The court pointed out that although the *Charter* rights are "defensive rights" of citizens against the state in the first place, they also embody the constitution's decision on what (objective) values should govern German society. These values are effective in all fields of law so that every provision must reflect them and thus be interpreted in the light of them. This means for courts which are to interpret general terms such as "public morals" that they always have to consider whether the interpretation sufficiently takes into account the meaning and importance of these values.⁴⁰² Thus, although the *Charter* is not directly applicable to civil law it does (indirectly) influence the relationship between individuals in that the courts which are to define the rights and duties resulting from civil law provisions are obliged to consider the basic values expressed in the *Charter* rights (so-called *mittelbare Drittwirkung der Grundrechte*).⁴⁰³ This is more apparent where the provision is broad and thus subject to a

⁴⁰¹ It should be noted that in Germany there is no specific enactment of a "*Charter*". *Charter* rights (*Grundrechte*) are embodied in Art. 1-19 of the *Basic Law*, the German Constitution.

⁴⁰² This decision also has an interesting effect on the successive stages of appeal: Although the Federal Supreme Court of Justice's decisions on civil cases are conclusive there is a possibility to "appeal" to the Constitutional Court on the ground that the Supreme Court's judgment is based on incorrect assessments as to the "significance and range" of the involved *Charter* right. The Constitutional Court can reverse the Supreme Court's judgment if the latter's interpretation of a statute is not "in accordance with the system of values expressed in the "*Charter of Rights*"; see e.g. *BVerfGE* 32, 311, at 316.

⁴⁰³ The literal translation would be "indirect effect of *Charter* rights on third party".

varied interpretation.⁴⁰⁴ The *Bundesgerichtshof* and the *Bundesverfassungsgericht* both considered *Charter* rights in three cases involving the violation of "public morals" as described in § 1 *UWG*. The *Bundesgerichtshof* held that the distribution of free papers, containing advertisements, violates "public morals" if the position of the "classical" press (*i.e.* newspapers with an editorial part) is considerably weakened by such a practice.⁴⁰⁵ The court argued that the term "public morals" must be interpreted in the light of the constitution's decision to protect the freedom of the press (Art. 5 *GG*).

The freedom of religion (protected under Art. 4 *GG*) was considered by the *Bundesverfassungsgericht* in the following case: A Catholic youth group organized a so-called "operation lumber-room" in the course of which it asked for the donation of scrap materials. These materials were sold and the profit was designed to be contributed to foreign aid. The appeals to donate the materials was made, among other things, from the pulpit of Catholic churches. As a result of this operation the business of a wholesaler in raw materials suffered considerable losses. The wholesaler sued on the ground of § 1 *UWG* and the District Court ordered the youth group not to announce their operation from the pulpit. The *Bundesverfassungsgericht* reversed this decision. It argued that the District Court did not sufficiently consider the freedom of religion and that an interpretation of the term "public morals" in the light of this constitutional right would have led to the finding that the practice of the youth group (*i.e.* the announcements from

⁴⁰⁴ *BVerfGE* 7, 198.

⁴⁰⁵ *E.g.* *BGHZ* 19, 392; *BGHZ* 51, 236; see also Gärtner, *Verfassungskonforme Auslegung wettbewerblicher Generalklauseln*, *BB* 1970, 1361, at 1364; Sack, *Die lückenfüllende Funktion der Sittenwidrigkeitsklauseln*, *supra* note 30, at 5.

the pulpit) did not violate "public morals" in competition.⁴⁰⁶ Finally, the *Bundesverfassungsgericht* made clear that although § 1 *UWG* is a permissible restriction of the right to the freedom of vocational practice (protected under Art. 12 *GG*), the courts are obliged to always bear in mind the importance of this right when they decide on whether a certain trade practice is not allowed.⁴⁰⁷

The Canadian *Charter of Rights and Freedoms*, on the other hand, has not yet reached this level of dominance in all fields of law. However, *Tarnopolsky* and *Beaudoin* point out that the *Charter* is open to such an interpretation. They observe that "the language used by the drafters of the Charter may provoke arguments that the Charter of Rights, at least in some articles, is directly applicable to individuals in their relationship with other private actors".⁴⁰⁸ They explain that sections 2, 7, 8 and 12 refer "to individual rights without reference to any state or governmental action requirement" and that therefore "[e]ach [section] would seem to be open to application in proceedings between private individuals".⁴⁰⁹ However, pointing out that "the courts should bear in mind its [the direct application of the *Charter*] drawbacks as a method of dealing with private action and the advantage of leaving the regulation of such conduct to human rights legislation or other

⁴⁰⁶ *BVerfG*, *NJW* 1969, 31. In fact, the District Court's judgment could have also been challenged on the ground that there was no "business action for the purpose of competing" on the youth group's part. The *Bundesverfassungsgericht*, however, was bound by the finding of the District Court as to this requirement because the ordinary courts' interpretation and application of civil law provisions is conclusive as long as they do not show an incorrect understanding of the meaning of *Charter* rights.

⁴⁰⁷ *BVerfGE* 32, 311, at 317; *BVerfG*, *GRUR* 1986, 397, at 389.

⁴⁰⁸ *Supra* note 400, at 45.

⁴⁰⁹ *Ibid.*

legal controls”⁴¹⁰, they ultimately recommend the *Charter* not be interpreted as applicable to the relationship between individuals.

As far as it could be made out the judiciary has not yet dealt with the influence of the *Charter* on the “private” rights and duties of citizens. However, when the Supreme Court in *Regina v. Nova Scotia Pharmaceutical Society* explained the doctrine of vagueness in detail it stated, referring to the state’s task to maintain the balance between societal interests and individual rights: “A measure of generality also sometimes allows for greater respect for fundamental rights, since circumstances that would not justify the invalidation of a more precise enactment may be accommodated through the application of a more general one.”⁴¹¹ It is hard to say what exactly is meant by this somewhat unclear statement and whether the Supreme Court favours a similar view to that taken by the *Bundesverfassungsgericht*, namely, that it is the general terms in particular which allow the judiciary to (indirectly) bring into effect *Charter* rights when it decides upon rights and duties between individuals. This, however, remains to be seen in the future. For the term “honest practices” this question, of course, is of no importance unless one of the ten provincial legislative bodies decides to use such a broad term in one of its statutes that regulate fair and honest conduct in competition.

⁴¹⁰ At 48.

⁴¹¹ *Supra* note 351, at 25.

Chapter V: Conclusion

This thesis started with the question whether the terms “public morals” and “honest practices” in German and Canadian unfair competition law are proper means of reacting to new business methods. The foregoing chapters have shown that the answer to this question is not the same for both jurisdictions. With respect to the German term “public morals” the question can certainly be answered in the affirmative. In the past 90 years the courts have shown their capability of enlarging the protection of consumers against trade practices such as misrepresentation, pestering and temptation, while the *Act Against Unfair Competition* still remained an instrument of protecting the traders against unfair competitors in the first place. The courts’ independent (and later approved by the legislator) shift from a narrow “individual dimension approach” to a much broader “social dimension approach” also allowed the courts to pay attention to the interests of the general public. In result, the legislator’s decision to prohibit every trade practice that violates “public morals” enabled the judiciary to combat any kind of business method they considered to contravene the idea of fair competition, regardless of whether it was a competitor, a consumer or the general public which was affected by it in the first place. This way of interpretation of § 1 *UWG* and its term “public morals” does not cause constitutional concerns. Although the rule of law principle requires every provision to be sufficiently precise and clear so that every citizen knows what kind of conduct is expected from him or her, the *Bundesverfassungsgericht*’s finding that a long history of judicial clarification and interpretation can provide for sufficient precision has made the term “public morals” constitutionally undisputed. Thus, there are no doubts that the term

“public morals” will further provide a stable basis for the judiciary’s ability to independently react to new business methods which may arise as a result of a moral decline in trade.

The answer to the initial question is equally simple with respect to the Canadian term “honest practices”. Since paragraph 7(e) of the *Trade-marks Act* is *ultra vires* Federal Parliament, the term “honest practices” in this provision is certainly not a means of responding to changing habits in competition. However, before paragraph 7(e) was challenged on constitutional grounds this provision has had no significance either. It could be observed that this was the result of the Canadian concept of the division of powers and the restricted interpretation of subsection 91(2) of the *Constitution Act, 1867* which allowed the courts to only interpret “honest practices” as being connected with “trade and commerce” as described first by the J.C.P.C. and later by the Supreme Court of Canada. Two additional reasons were the close link between the protection of trade-marks on the one hand and unfair competition law, on the other hand, in Canada and the reluctance of Canadian courts to go beyond well established common law principles when they defined the scope of application of paragraph 7(e). Thus, even when the term “honest practices” was part of a valid provision it was not - and partially could not - be used as an instrument to widen the scope of application in a way that has been accomplished in Germany.

Whether or not a broad term such as “honest practices” will ever be able to gain significance remains to be seen when one of the provincial legislators should decide to use it in its consumer protection or trade practices legislation. It is equally open whether the

recently developed doctrine of vagueness, which did not play a role in the Supreme Court's finding of paragraph 7(e)'s unconstitutionality, would be a sufficient ground to challenge the validity of the term again.

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