Passing off and Tying: The Confluence of Tort and Antitrust

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Abstract
The recent case of Sony v. Hi-Fi Express Inc. provides an excellent backdrop for a discussion of the relationship between a tort analysis and an antitrust analysis of passing off cases. Both perspectives are explored, with pertinent examples. A set of guidelines for deciding similar cases is suggested and applied to the decision in Sony.
PASSING OFF AND TYING: THE CONFLUENCE OF TORT AND ANTITRUST

BY CHRISTOPHER BRUCE* AND ELIZABETH WILMAN**

The recent case of Sony v. Hi-Fi Express Inc. provides an excellent backdrop for a discussion of the relationship between a tort analysis and an antitrust analysis of passing off cases. Both perspectives are explored, with pertinent examples. A set of guidelines for deciding similar cases is suggested and applied to the decision in Sony.

I. INTRODUCTION

The last decade has seen the rapid growth of a form of retail outlet known as the “discount firm.” These firms do not consistently carry the same brands of products or the full “line” of any one brand, preferring instead to sell only those products which they can obtain most inexpensively at any one time. They offer relatively little personal service: costs are kept down by requiring that customers inform themselves about the relative merits of different products.

Many manufacturers are willing to sell their products to these firms on a regular basis. Others are reluctant to do so for reasons which will be discussed in this article. During “boom” periods, these unwilling manufacturers and the discounters maintain an uneasy truce. Customers are willing to pay the higher prices which the non-discount retailers charge, allowing the non-discount retailers to maintain their market shares despite competition from discounters; and manufacturers find it relatively easy to prevent discounters from obtaining their products. When the economy enters a recession, however, competition from discount firms becomes more worrisome to manufacturers and their approved retailers. First, customers become more cost conscious, making competition from the low-priced discount firms more pressing. Second, approved wholesalers and retailers begin to find themselves with large
stocks of unsold products, making it more attractive for them to sell those products to discount firms "under the counter".

For this reason, manufacturers wishing to retain control over the retailing of their products have begun to seek new methods of restricting access of discounters to those products. Recently, Sony of Canada devised a method which has such great potential for success that it could block all unauthorized sales of products by discount firms (and other retail outlets).

The purpose of this article is to describe this method — which requires that the courts apply the tort doctrine of "passing off" to "tied" products — and to analyze its effect upon the economy. To this end the problem is stated formally. Second, the arguments for and against passing off and tying are reviewed. Third, the arguments are summarized by asking when the courts should condone tying by invoking the passing off doctrine to enjoin the sale of "untied" goods. Finally, an example of the application of this theory is offered by reviewing the decision in a recent Canadian case, Sony v. Hi-Fi Express Inc.¹

II. STATEMENT OF THE PROBLEM

Assume that manufacturer X provides product A to retailers on the condition that they sell A only in conjunction with product B. That is, assume that X ties B to A. If company Y now obtains units of A and sells them either without product B, or tied to some substitute product, C, is it in the public interest that the courts enjoin sales of A by company Y?

This question faced the court in Sony v. Hi-Fi. Sony's policy requires that its products (A in the above example) be sold only in conjunction with a specified warranty and service contract (B). Hi-Fi Express Inc., a retailer of audio and video equipment, obtained eleven lines of Sony products² from an unnamed source and offered them for sale with a Hi-Fi warranty (C) rather than a Sony warranty (B). Sony's position was that Hi-Fi's actions constituted passing off. The court agreed.

What makes this type of case interesting is the fact that the court must choose between two conflicting doctrines: tying and passing off. A general legal principle is that the tying of products A and B is to be

² The eleven products included: three models of Sony Walkman radios, two models of Sony Betamax video recorder, three types of recording tape and three models of car radios (Statement of Claim Number 4069/82, between Sony of Canada Ltd. and Hi-Fi Express Inc., et al, April 13, 1982).
discouraged when employed to extend a monopoly into an otherwise competitive market; but it is equally the case that the courts will generally enjoin passing off. So if the claim that company Y is passing off company X's products arises because Y is offering product A untied to B, when X requires that those products be sold together, in the broadest possible context, the court is being asked to select among the following alternatives:

(i) allowing Y to pass off product A as being that of X, but not enjoining X's tying of A to B;
(ii) allowing Y's passing off and enjoining X's tying;
(iii) enjoining Y's passing off - which automatically condones X's tying.

These three alternatives provide a useful perspective from which to compare passing off and tying decisions. First, following the passing off doctrine would lead to the choice of alternative (iii), whereas following the tying doctrine, which is that tying is legal unless it substantially lessens competition in market for the tied good, would lead to the choice of alternative (ii). Hence, there is a conflict between the two doctrines. Second, even if this conflict did not exist, allowing tying and enjoining passing off are not equivalent. Tying is allowed by (i) and (iii) whereas only (iii) requires the enjoining of passing off. A decision to enjoin passing off is stronger than is necessary to allow tying. Placing a case such as Sony v. Hi-Fi strictly in a passing off framework ensures that Sony's tying of B to A will not be considered and therefore will not be legally prevented regardless of whether or not passing off is enjoined. An injunction against passing off merely prevents anyone from selling B untied to A.

These inconsistencies between the passing off doctrine and the tying doctrine make it necessary for the court to choose which view is appropriate prior to making the decision whether to enjoin. Some guidelines would be useful to the court in deciding how to resolve the conflict between these doctrines. To this end, the theoretical arguments for and against both passing off and tying should be considered.

III. PASSING OFF

Two competing arguments must be taken into consideration when deciding whether passing off is in the public interest. First, it can be argued that it is often valuable to maintain a distinction between the names of product B and C because those names are used by consumers as expensive signals of difference in quality and performance. Instead of having to investigate the characteristics of each product, consumers can rely on information obtained from advertising, recommendations
from friends and past personal experiences. Therefore, it is detrimental to the consumer and to the market to allow firms to pass off their products as those of their rivals.

However, it can be argued that when Y, the producer of C, is enjoined from passing off its product as being B, the product of company X, competition between X and Y is reduced. Precisely because consumers attach significance to the names of products, an injunction which gives X the sole right to the name of B can be expected to induce consumers to believe that B and C are not close substitutes. The resulting reduction in competition may allow X to restrict output of B and to drive its price above the incremental costs of production. In economic terms, this behaviour is inefficient because some units of B, which consumers value more than the cost of producing them, will not be produced. The competition argument suggests that it may be advantageous to allow firms to “pass off” their products because it increases competition.

In general, both of these arguments should be considered when deciding whether to allow passing off. However, there are some special cases in which only one of the arguments is relevant and in these cases the decision is much easier.

When products A and B are identical, or virtually so, only the competition argument is relevant. For example, B.C. apples are the same whether sold by Co-op stores or by Safeway. Thus, requiring Co-op to attach a different name to its apples than that given by Safeway will not reduce confusion on the part of consumers. It will only impede competition among suppliers of B.C. apples by artificially differentiating identical products.

Similarly, if consumers adopt the symbol which originally identified a particular company's product as being a generic symbol, no confusion will result from allowing other companies to use that symbol to describe their products. Once consumers call all products which are similar to Gramophones, “gramophones”, consumers cannot be said to have been confused by a rival’s use of the word gramophone to describe its product, even if that product is inferior to the original. Once consumers no longer employ product names as a signal of differences in quality and performance, there is no social benefit to be gained by restricting application of those names to the products of specific companies. Indeed, there can be a social loss if the consequence is reduced

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*In criticism of this position, Meyer Burstein (commenting on this paper at the Law and Society meetings, Boston, June 1984) noted that if firms are constrained in their abilities to monopolize the use of their trade names, the value of those names will be reduced. In turn, this may...*
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competitiveness among suppliers which leads to higher prices and restricted output.

However, the opposite, distinctive name argument prevails when the market for B is clearly competitive and B and C are neither identical nor close substitutes, as products in the same generic class would be. Then, if company Y passes off its product, C, as being company X's product B when, in fact, C is inferior to B, consumers will purchase C thinking that it is B, to their detriment. This will result in the production of more C and less B than would have otherwise been the case, and both consumers and company X will bear the resulting losses. In such a case, passing off is clearly disadvantageous and should be enjoined.

Between these two extremes there will be many cases where passing off will have both the advantage of increasing competition and the disadvantage of blurring consumers' perceptions of the quality differential that actually exists between B and C. In these cases, public policy requires that the perception losses be weighed against the reduced competition losses when deciding whether or not an injunction should be awarded against Y.

In summary, passing off can be deleterious to the public interest if it acts to confuse consumers and to induce them to make sub-optimal selections among products. However, the enjoining of passing off can produce a degree of monopoly power. The costs of this effect should be weighed against the benefits, particularly when product C, the product being enjoined, is a close substitute for B or when the name for B has taken on a generic use.

IV. TYING

Three arguments have been advanced which suggest that tying is contrary to the public interest. First, tying may be a means by which a company with a monopoly, or dominant, position in one market extends its influence into a second market. For example, assume that company X, which produces products A and B, has a monopoly in the market for A but faces competition in the market for B. If it is also assumed that the consumers who purchase B normally also purchase A, then com-

well lead to under-investment in the production and dissemination of new products. This is a valid point. However, it must be noted that society awards "property rights" to trade names only reluctantly, in recognition of the fact that such awards have costs — in terms of the monopoly power they allow — as well as benefits. Therefore, it is suggested that the property rights to trade names are not immutable. There are many situations in the law — for example, the "rights" to control the use of the air above one's property and of photographic likenesses of oneself — in which the extent of private property rights has been constrained when it was decided that the social benefits of such constraints exceeded the private costs. Such a contrasting of social with private interests is also relevant to passing off cases.
pany X will be able to increase the price of B above its competitive level and still take business away from its competitors simply by tying sales of B to sales of A. Eventually this may drive the competitors in market B out of business. As the monopolization of a previously competitive market is contrary to the public interest, this form of tying is disadvantageous.

Second, assume that company X manufactures product A which company X does not retail itself. If it places no restrictions on the numbers of retailers who carry A, a competitive market, among retailers, may be established. As competition in this market depresses retail prices, retailers will put pressure on company X to reduce wholesale prices. To avoid this, company X may attempt to restrict the number of retailers carrying its product. One method of accomplishing this would be to place direct controls on X's distributors, requiring that they sell only to specified retailers. However, such a policy is often difficult to enforce, particularly when non-discount distributors and retailers begin to encounter financial difficulties, and the temptation to resell product A to non-authorized firms becomes great. Assume, however, that X also produces a second product, B, that the resale of B is easier to monitor than is the sale of product A, and that B can be tied to product A. If X can tie A to B, it will be able to restrict competition among the retailers of its product, thereby easing its efforts to maintain high retail prices. In a case like this, tying to maintain high retail prices is simply another form of tying to extend monopoly control.

Third, a monopolist (X) producing A may be able to use a product B, tied to A, to price discriminate among customers, that is, to charge some customers a higher price for A than is charged to other customers. For example, assume both that product A is a machine with which each customer will employ a number of units of product B, and that

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4 There is a distinction between the term "extension of influence" and the "extension of monopoly" or "leverage" hypothesis found in the literature. It is not argued that company X is trying to completely monopolize the market for B, but simply that, by extending the influence into the second market, X is able to increase its monopoly gains. This view is more in line with the theory found in Bowman, Tying Arrangements and the Leverage Problem (1957), 67 Yale L.J. 19 at 25-27, Burstein, The Economics of Tie-In Sales (1960), 42 Rev. of Econ. & Stat. 68 and Burstein, A Theory of Full-Line Forcing (1960), 55 Nw.U.L.R. 62, than with the "extension of monopoly" theory favoured by Posner, Anti-Trust Law (1976) at 173 and Connolly, Exclusive Dealing and Tied Selling Under the Amended Combines Investigation Act (1976), 14 Osgoode Hall L.J. 521 at 531, 548.

6 In this sense, tying has the same deleterious effect as resale price maintenance.

8 In the literature, the "price discrimination" hypothesis seems sometimes to be used to refer to the more general hypothesis put forth by Burstein, A Theory of Full-Line Forcing, supra note 4, that a monopolist can sometimes increase profits if it is able to impose conditions (other than price) on the sale of the monopolized product. The conclusions here on the price discrimination argument are in agreement with this more general view.
different customers will demand different amounts of B. If B is not tied to A, it may not be possible to price differentiate among customers of product A. Each customer will have to be charged the same price. Yet, if purchasers of A are required to purchase B from company X, and X sets the price of B above the normal market price, the net effect will be to raise the price of A by the increment in the price of B, multiplied by the number of units of B used. Thus, those consumers of A who use the fewest number of units of B will be charged the lowest effective price for A, while those who use the greatest number of units of B will pay the highest price for A. In theory, it is possible to argue that price discrimination is preferable to a single monopoly price. While it raises prices for some it lowers prices for others and allows the profit-maximizing monopolist to expand output, selling to all customers who value the product at least at its incremental cost. However, it does not follow that the type of price discrimination accomplished through tying arrangements has this desirable property. By charging a uniform price in excess of incremental cost for B, company X causes the output of B to be reduced so that some units whose value would have exceeded their incremental cost are not produced. In the end, the price discrimination case is no different from the two previous cases. It is simply a means of tying to extend monopoly control.

It should be noted that the tying of product B to A can only be said to be contrary to the public interest if the market for A is not competitive. For if there is non-collusive competition among sellers of product A, then those customers of firm X who do not wish to purchase products A and B in the combination required by X will simply turn to one of X’s rivals for their purchases of A. Only if competition between X and its rivals is restricted, in the sense that its rivals’ products are poor substitutes for product A, can X “force” an undesirable combination of A and B on its customers.

There are also conditions under which tying can exist in a competitive market and be beneficial to the public interest. First, if customers usually purchase products A and B in fixed proportion, it may be cheaper to sell A and B together rather than separately. Such a cost relationship argues for what is commonly known as “bundling”, that is, the selling of two goods as though they were one. Car dealers, for example, may be said to have bundled tires and radios with their cars.

A second example of this type occurs when most consumers are risk averse. This means that they usually purchase product A and a

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* The following example is modelled upon the seminal American case of International Business Machines v. United States, 298 U.S. 131 (1936), 56 S.Ct. 701 (1936).
warranty (product B) in fixed proportion. The combination of B with A has the effect of transferring risk from buyers of A to the seller. If the seller is in a better position to bear or “spread” this risk, it may be cheaper to bundle the warranty and the product than to sell them separately.⁸

Furthermore, if the proportions in which A and B are demanded are fixed, then even if a firm has a monopoly in the production of A, that firm cannot use its power to reduce competition in the market for B, or to capture any additional profits in that market. Thus, any tying of A to B will have no deleterious effect on the marketplace.

Risk spreading may also occur when A is a machine with which a large but variable number of units of B are employed. If (i) buyers of A are not certain how much use they will obtain from A, (ii) buyers correspondingly use more units of B with increases in the use of A, and (iii) buyers place a greater value on A the more frequently A is used, the seller may be able to accept some of the risk that A will be used less than expected by taking part or all of the price of A in the form of a relatively high price for B. That is, the seller will have transferred to itself the risk that use of product A will be unexpectedly low by agreeing to accept a reduced “price” for A in that event. However, the buyer will pay an increased “price” for A through the premium paid for B, should use of A prove to be unexpectedly great.

For example, assume that all of the price of A is transferred to B and that no A will be demanded if no B is purchased. By pricing B at higher than its incremental cost, some units of B, which are valued at greater than the incremental cost of supplying them, will not be produced. However, this loss is offset by the gain achieved through the reduction of risk. If the market is competitive, it can be assumed that such tying will not be observed unless the risk reduction gain is at least as great as the loss from reduced sales of B. If the gain from risk reduction did not exceed the losses from reduced sales of B, it would benefit at least one firm to offer A and B untied. That firm would then enjoy a competitive advantage relative to those who continued the tie.

If the market for A is controlled by a monopolist, the risk-spreading argument is not as conclusive. The monopolist may well be able to achieve some risk-spreading benefits by tying B to A and shifting some of the charge for A to B. However, if A is sold by a monopolist, X, the tying of B to A will allow X to extend monopoly control to some degree. The benefits from risk-spreading have to be weighed against the

⁸ A sophisticated analysis of the risk-spreading issue is developed in Liebowitz, Tie-In Sales and Price Discrimination (1983), 21 Econ. Inquiry 387 at 390-94.
losses due to decreased competitiveness in the market for B.

The third case involves costs, such as those arising from equipment malfunctions, created by the absence of tying. Assume that improper installation or operation of a product may cause it to malfunction. In many cases, written instructions packaged with the product will suffice. However, there will be cases in which written instructions for installation and operation are not an adequate substitute for personal supervision. In such cases, the manufacturer may wish to ensure that supervision be provided only by well-trained personnel in order to prevent the costs of equipment malfunction from accruing to itself or to the consumer. Tying is a first step in reducing these malfunction costs. The manufacturer of the equipment can tie the sale of the equipment to the sale of the installation services by dealing exclusively with retailers who will provide the services.

In some cases this may suffice. However, allowing the tie only permits the sale of the equipment to be tied to the provision of the service; it does not require it. If a retailer who cannot or will not provide the service is able to obtain equipment, there is nothing in the allowance of the tie that prevents the sale of that equipment. If the provision of the service is costly, a significant number of retailers are likely to sell the product without the service and there will still be large malfunction costs. It is here that the passing off doctrine becomes relevant. Presumably the maverick retailers are able to sell their product without the installation service because consumers are uninformed about the necessity of proper installation services. Thus, it can be argued that the maverick retailers are passing off a product of low quality and that this passing off should be enjoined. The injunction on passing off would minimize malfunction costs. This argument depends both upon consumer ignorance and upon costly information services. If either of these does not exist, there will be no malfunction costs due to passing off.

In the same vein, some types of delicate or complicated consumer products may require that purchasers be given instructions concerning the products' features and use. If the product and instructions are not sold tied, consumers and sellers of the product may experience losses: the consumers in terms of dissatisfaction and the producers of the product in terms of an erosion of product reputation. However, allowing producers to tie the sale of the product to the purchase of the information does not prevent their separate sale. If the provision of information

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9 The analysis of this paragraph and the two which follow is closely related to the rationale given for resale price maintenance by Mathewson & Winter, The Incentives for Resale Price Maintenance Under Imperfect Information (1983), 21 Econ. Inquiry 337.
is costly, and at the same time freely available, there is an incentive for firms to "free ride" on the information provided by other firms. This means that those firms which do not offer information will be able to charge a lower price for their products than those who do provide information. When the resulting price differential is greater than the cost to the customer of seeking out the low-price firms, firms offering information will lose many of their customers. In response, these firms may be forced to cut back on their services, even when customers consider the benefits from those services to exceed their costs. The result is an overall lowering of service. An injunction against passing off can solve this problem if it allows the producer to ensure that it is only those retailers who offer information who will be allowed to sell the product. However, the gains from the allowance of tying and the prevention of passing off will only arise if there is an incentive to free ride. If the necessary information could be transmitted via instructions packaged with the product, the free rider problem could be overcome, without the intervention of the courts, at little cost.

Finally, it should be re-emphasized that even if an argument can be made for tying and for passing off, there is still the fact that both the allowance of the tie and the injunction on passing off are anti-competitive and will result in restrictions in output. Only if the losses from the restrictions on output do not exceed the costs of malfunction may the allowance of tying and the prohibition on passing off be said to serve a socially desirable purpose.

V. SUMMARY OF THE THEORY

A. Passing Off

Whether or not passing off should be allowed in any given case should be decided on the basis of two criteria: (i) the degree to which disallowance of passing off would restrict competition; and (ii) the degree to which allowance of passing off would cause consumer confusion. Most cases involving passing off have been decided on the second criterion alone. In general, the issue has been whether a name has become generic or whether the use of the name should be restricted because it describes a class of products which exhibit some unique quality of value to consumers. The decisions in Bollinger v. Costa Brava Wine,10 John Walker and Sons v. Henry Ost,11 Vine Products v. Mackenzie (No.

2)\textsuperscript{12}, and \textit{Erven Warnink v. Townend}\textsuperscript{13} were all based on this criterion. In all cases, the products, “champagne”, “scotch”, “sherry” and “advo-caat”, respectively, were held to have some unique character such that passing off would create consumer confusion and harm. Regardless of whether one agrees with the decisions in these cases, the criterion being used is relatively clear.

In all the “booze” cases, any effect which passing off might have had on competitiveness has been ignored. The reason for this is that the passing off doctrine has its origins in tort rather than antitrust. Thus, when the common law courts ask whether the alleged passing off constitutes “unfair” competition, they are concerned only with the deleterious effects which the permitting of passing off might have. They do not consider the anti-competitive effects which an injunction against passing off might create. It seems quite possible, for example, that the confusion created by the passing off in \textit{Vine Products v. Mackenzie (No.2)} (the sherry case) was sufficiently slight, and the potential competitive gains created by allowing non-Spanish wines to be called “sherry” were sufficiently great, that it would have been in the public interest to allow the passing off. What is needed in such cases is consideration of the positive and negative effects of passing off.

B. \textit{Tying}

As in the case of passing off, the desirability of allowing tying should be evaluated both in terms of: (i) any gains which might result from cost saving, risk spreading, or reduced malfunction or dissatisfaction costs; and (ii) any losses which might result from decreased competitiveness. Unlike passing off, the concept of tying arises from antitrust law, which has as its main focus the promotion of free competition. Particularly in American law, the conventional wisdom has been that a tie-in is simply a device by which monopolists extend their control over additional goods. It is premature to generalize this view to Canada where the recently broadened scope of combines law has made such restrictive trade practices as tying reviewable by the Restrictive Trade Practices Commission (RTPC).\textsuperscript{14} However, it is clear that evidence going to the issue of the practice’s effect on competition will be highly relevant, and it is to be hoped that the Commission will be empowered to consider evidence regarding the cost saving, risk


\textsuperscript{14} See the \textit{Combines Investigation Act}, R.S.C. 1970, c. 23, as am. by S.C. 1974-75-76, c.76, ss. 31-34.
It is also useful to note that not all of the arguments offered in support of tying necessarily support the view that passing off should be discouraged. For example, assume that it might be cheaper to sell products A and B together than to sell them apart. However, if this is the only argument for tying, it clearly cannot be used as a rationale for a legal prohibition on the separate sales of A and B. Wherever joint sales are cheaper than separate sales, those firms that offer A and B separately can be expected to be driven out of business by those that offer them together. Similarly, if tying can transfer risk from the buyer to the seller, sellers who tie their goods will obtain a competitive advantage over their rivals and will not need legal protection in the form of passing off remedies.

A related argument made above for allowing tying was that tying allowed sellers to ensure quality by incorporating warranties, setting product specifications and establishing requirements for service personnel. If these items are costly to provide, a prohibition on passing off may be necessary to prevent free riding. However, in some cases it may be virtually costless to ensure quality. For example, the producer could bundle the warranty with the product and require that all purchasers use only approved parts and service representatives for the warranty to have full force. When toaster manufacturers wish to ensure quality they do not establish exclusive toaster dealerships; they insert a warranty into every box containing a toaster and direct the consumer to return defective products to a specified service centre.

In other cases, it may not be sufficient to incorporate restrictions to that effect in the warranty. First, many consumers will not read the warranty until the problem in question has already arisen; and, second, by the assumption made in the preceding section, it is only instructions which are not easily understood in written form which create problems for the producer. However, for this argument for enjoining passing off to succeed, the producer must be able to show that damaging use or installation will occur if unauthorized dealers sell the product. With respect to the vast majority of consumer products, we suspect that this defence cannot reasonably be made. Virtually all manufacturers of consumer products will find that the cheapest method of ensuring that their products are not mistreated is to design them in such a way that they are easy to install and use. Thus, this defence, too, would probably fail with respect to all but the most fragile and complicated of con-
Finally, it may be in the public interest to allow a manufacturer to tie pre-purchase information to sales of its product, and thereby exclude non-authorized dealers, if that action encourages dealers to provide valuable information to their consumers. However, before this argument for passing off can be accepted, it must be shown that the benefits from the information would exceed the costs arising from the resulting restraints of competition.

VI. COURT PROCEDURE

A. Principles

If firm X has charged that firm Y is passing off, the courts should ask the following series of questions (in the order listed):

a) Is there some "real" sense in which consumers might consider firm X's product to differ from that of firm Y?

The argument has been that if consumers consider two products to be interchangeable, it is generally desirable to give those products the same generic name in order to encourage competition. The only exception to this argument is when firm Y is "free riding" on firm X's provision of information about its product; in such a case an "under-production" of information may result. 

b) If the products of firms X and Y differ from one another, does that difference arise from a characteristic which can be separated from the product?

For example, do two wines differ only in the decorative etching on their respective bottles (a characteristic which is separable from the wine itself), or do they differ in their respective tastes (non-separable)? If the characteristics are non-separable, then the tying issue cannot arise, and question c) (infra) can be omitted. If however, the characteristics are separable, it must be asked whether the tying of those characteristics is in the public interest before it can be asked whether the passing off should be enjoined.

c) If the characteristics that distinguish the two goods are separable, is it in the public interest that those characteristics be tied to one another?

In sections IV and V (supra), it was argued that the general pre-

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16 Infra section (e).
sumption must be that tying is not in the public interest, as tying can be used to restrict competition and to price discriminate. Exceptions occur when benefits can be shown to derive from tying, such as risk spreading, cost saving and quality control. If company X is to be successful in arguing that company Y is passing off, because Y is selling X's product A untied to product B, it is first incumbent on X to show that one of these public benefits derives from the tying of A to B and that that benefit overcomes the general presumption against tying.

\[d) \text{Should firm Y be enjoined from passing off its product as being that of firm X?}\]

The answer to this question depends upon the answers to the first three questions listed above. If question a) is answered negatively, it is not in the public interest that firm Y's activity be enjoined unless it can be shown that firm Y is “free riding” on customer information provided by firm X and that the anti-competitive costs of such an injunction would be outweighed by the benefits of the additional information which would be provided.

If question a) is answered positively but b) is answered negatively, then a “classic” case of passing off is encountered. In this situation, an injunction should be awarded only if the anti-competitive costs of the injunction can be shown to be less than the benefits which would flow from the clarification of the differences between products A and B.

If both of the first two questions are answered positively, then it must be asked whether the tying of good B to product A is in the public interest (question c). If the answer is “yes”, then in deciding whether to award an injunction, it must be asked whether that injunction is required to prevent erosion of these benefits by free riders. In Section V, we suggested that the only compelling arguments for allowing tying and an injunction against passing off in conjunction with one another were: (i) that it might be necessary to ensure proper installation or use of product A; and (ii) that it might allow manufacturers to control retailers sufficiently that they could ensure that the desired amount of information concerning product A was provided to potential customers. In such cases, the arguments for the use of an injunction against passing off would be strengthened relative to those situations in which the tie was held to be contrary to the public interest. Conversely,

\[17 \text{The injunction against Y need not be an absolute one. For example, if the cost of calling a sparkling wine “champagne”, when it is not from the Champagne district of France, is that consumers mistake it for the superior French wine, it is not necessary to enjoin other sparkling wine producers from using the word “champagne”. Rather, the injunction could call for a clarification of the distinction, such as requiring that a sparkling wine produced in Ontario clearly be labelled as “champagne from Ontario.”}\]
therefore, if the third question is answered negatively, the argument for the awarding of an injunction, under the passing off doctrine, is weakened.

B. Application to the Case of Sony v. Hi-Fi

As an example of the application of the four questions listed above, we consider the case of Sony v. Hi-Fi. First it is necessary to clarify what product Sony is tying. Although it is nominally the guarantee, in fact it is also the information services which their authorized dealer provides with the product. This distinction becomes important in answering question c).

a) Is the product being sold by Hi-Fi the same, from the consumer's point of view, as the product being sold by Sony?

As a finding of fact, it was decided in Sony that the product being offered by Hi-Fi was different from that being offered by Sony, as the latter implicitly included a Sony guarantee which was different from the guarantee being offered by Hi-Fi.

b) Are the products Sony has tied together separable?

Clearly, the answer to this question is “yes”. Therefore, the issue of the desirability of the tying of these two components is relevant.

c) Is the tying of the Sony guarantee (and/or the authorized dealer information services) to the Sony products in the public interest?

In sections IV and V, it was argued that the tying of two goods would be deleterious to the public interest to the extent that it restrained competition. The tying of the Sony guarantees, or dealer information services, to their associated products imposes this cost if the fact of that tying can be employed by Sony to restrict competition. Thus, if the tying of guarantees or dealer information services to Sony products is to be seen to be in the public interest, not only must some benefit of the tying be present, but that benefit must be shown to exceed the cost of reduced competition. There are three possible benefits: risk spreading, cost saving and quality control. With respect to the first two of these, the tied product is the guarantee alone. If Sony’s customers are risk averse, or it is cheaper to offer the guarantee and product together than apart, Sony can simply package the guarantee in the same box as the product and direct that defective products be returned to an authorized dealer or repair centre.

The quality control argument arises in situations in which it is desirable that the customer receive information concerning the care and operation of the product. In some circumstances, this information can be provided by enclosing written instructions with the product. In others, however, it may be beneficial that qualified personnel be availa-
ble, at the point of sale, to instruct the purchaser. In either case, the tying of the information to the product is in the public interest. As Sony products are generally not difficult to operate, they fall into the first category, above. That is, whereas it is in the public interest that written instructions be included with Sony’s products, there is no compelling reason why additional, verbal instructions should also be tied to their products.

d) Should Hi-Fi be enjoined from passing off its products as being that of Sony?

If an injunction is imposed on Hi-Fi, competition in the sale of consumer-oriented electronic equipment will be further restricted, and a precedent will be established which will allow other manufacturers to restrict competition in the sale of their products. Such restrictions are generally held to be contrary to the public interest to the extent that they allow retailers to raise prices and to offer poorer service to customers.

Arguments to support passing off are basically extensions of arguments used to support the tie, although the conclusions need not be the same. It was concluded in c) that the tying of the guarantee to the product is defensible. Does this mean Hi-Fi’s sales should be enjoined? If Hi-Fi’s guarantee is inferior to Sony’s in some way which is not apparent to consumers, an injunction may be seen to be a means of protecting consumers. However, as suggested earlier, this argument is not available to Sony or to other manufacturers in the same position. If Sony is genuinely concerned that purchasers of its products receive an adequate guarantee, it can “bundle” such a guarantee with its products. No injunction is necessary.

The only defensible argument for an injunction against passing off is the argument that quality control requires authorized dealer information services. The rationale is that an injunction will enable Sony to exercise greater control over the level of customer services provided by the retailers of its products. If authorized Sony dealers were required to provide certain information to customers, and non-authorized firms refused to provide this service, they would be able to undercut the prices of the authorized dealers, reducing the sales and profits of the latter. If this reduction was sufficient, authorized dealers could be expected either to break their relationship with Sony or to press Sony to relax its requirements concerning the provision of information. In either event, customers would be left worse off, as they would receive less information. This situation could be avoided, however, if Sony could obtain an injunction preventing firms like Hi-Fi from selling Sony products.

One admittedly circuitous method for obtaining such an injunction
would be to tie a Sony guarantee to the Sony product and then argue that unauthorized dealers were passing off their products, which did not have Sony guarantees, as being those of Sony. If Sony can enjoin any firm which does not offer a Sony guarantee, it will be able to impose the precondition that retailers of its products offer detailed pre-purchase assistance concerning the installation and operation of those products. However, this argument can succeed only if the service provided by dealers are sufficiently costly. In the Sony case, not only will the cost of providing pre-purchase information about most of the Sony products sold by Hi-Fi be sufficiently low that a firm which failed to offer that information would enjoy only a very slight cost advantage, but the amount of Sony equipment being sold by non-authorized dealers can be expected to be sufficiently small that it will have very little impact on sales by authorized dealers. In addition, failure to enjoin non-authorized dealers will have no effect on the amount of post-purchase assistance, provided only that customers are aware of the differing amounts of such assistance offered by different firms. That is, if customers wish post-purchase assistance and are able to determine which firms provide such assistance, those firms which do not provide this service will find themselves at a distinct competitive disadvantage. Finally, as was noted in c), the necessary information is more cheaply distributed by packaging. There is generally no need to tie dealer information to the product, and no need to protect a tie through an injunction on passing off.

In conclusion, the only benefit of the injunction in Sony is that it will allow Sony to require that its dealers provide customers with a minimum level of pre-purchase information. It is questionable whether there is any benefit to be gained here. At best it is small. Set against this benefit is the reduction in competitiveness among retailers of electronic equipment which such an injunction would produce. Which of these factors is more important is, in part, a matter for subjective judgment. However, it is our view that the cost of reduced competition in this case is of greater importance than the benefit of increased information. On that ground, and in the absence of further evidence, injunctions should not be awarded in cases like Sony.

VII. CONCLUSIONS

Traditionally, one firm could obtain an injunction to prevent a second firm from passing off its product as being that of the first if it

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18 Supra note 2.
could be shown that the product of the second was different from the product of the first. However, the recent Canadian case of Sony v. Hi-Fi Express raises some important questions concerning the traditional interpretation of this doctrine. In that case, Hi-Fi obtained various Sony products and attempted to sell them in combination with a Hi-Fi guarantee. Sony objected on the ground that the name Sony implied a "package" of a product plus a Sony guarantee. Therefore, Sony argued, Hi-Fi was passing off its package (of Sony product and Hi-Fi Guarantee) as being that of Sony. The court agreed and ordered an injunction preventing Hi-Fi from selling Sony products.

This case differs from the traditional passing off case in two significant respects. First, the only characteristic which differentiates the Hi-Fi "package" from the Sony "package" is one which can easily be separated from the remaining characteristics. That is, not only can guarantees be sold separately from their respective products, often they are sold separately. This leaves open the possibility that any firm which wishes to restrict the number of firms which sell its products can do so simply by separating the guarantee from the product, making the guarantees available only to selected retailers, and then tying the purchase of the guarantee to the product. In short, the application of the passing off doctrine to cases such as Sony creates the possibility that manufacturers might use this doctrine to restrict competition among retailers in the selling of their products. Such a restriction would not be in the public interest.

Second, the situation which arose in Sony also differs from that which arises in the traditional passing off case in the sense that the defendant's product only differs from that of the plaintiff because the plaintiff has refused to co-operate with the defendant. If the concern expressed in Sony — that the selling of Sony's products untied to its guarantees would hurt its reputation — was genuine, Sony could have chosen to package its guarantees with its products. In such a case, of course, no claim of passing off could be raised.

This is not to say that a charge of passing off could not be sustained on some other basis. For example, Sony might be able to argue that Hi-Fi had failed to provide adequate instruction concerning installation and operation of Sony products. Nor is there no other ground on which it might be argued that Hi-Fi's actions were contrary to the public interest. For example, Hi-Fi may not have provided the desired amount of pre-purchase information to customers. However, the latter two arguments are generally not sufficiently important to justify an injunction of the type awarded in Sony.