

Canada's highest court cuts through the confusion

The Supreme Court of Canada has taken considerable interest in trademark issues over the past five years, with the latest decision expected to have a significant impact on the use of expert evidence in trademark enforcement proceedings

In *Masterpiece Inc v Alavida Lifestyles*, Canada's highest court rendered its third trademark decision in less than five years. While the two other recent cases, *Mattel, Inc v 3894207 Canada Inc* and *Veuve Clicquot Ponsardin v Boutiques Cliquot Ltée*, focused on famous marks and the depreciation of goodwill, *Masterpiece* is primarily concerned with some of the more technical aspects of assessing confusion.

In *Masterpiece*, the Supreme Court of Canada ultimately decided that the trademarks MASTERPIECE LIVING and MASTERPIECE THE ART OF LIVING, both used in association with retirement residence services, were likely to be confused with one another. This decision reversed earlier rulings of both the Federal Court and Federal Court of Appeal, which found confusion between the marks to be unlikely. The Supreme Court took the opportunity to clarify the interplay between unregistered marks and registered marks, and to review the basic approach and criteria applicable to a confusion analysis. The court also made some noteworthy observations on the court's role regarding the admission of expert evidence in trademark enforcement proceedings which will likely have a significant impact on the use of such evidence in future cases.

Background

Both Masterpiece and Alavida operate in the retirement residence industry. Masterpiece started business in 2001 in Alberta and used various unregistered trademarks featuring the word 'masterpiece', including MASTERPIECE THE ART OF LIVING and MASTERPIECE THE ART OF RETIREMENT LIVING.

Alavida, on the other hand, commenced business in 2005 in Ontario, nearly 3,000 kilometres away from Masterpiece. Shortly thereafter, Alavida applied to register the trademark MASTERPIECE LIVING on the basis of proposed use. Alavida subsequently began using its mark in January 2006, a necessary precursor to registration in Canada, and the mark was registered without any opposition in March 2007.

In the meantime, Masterpiece applied to register the trademarks MASTERPIECE and MASTERPIECE LIVING. However, as a result of Alavida's prior application, which at that time was still pending, Masterpiece's applications were denied on the basis that they were confusing with Alavida's MASTERPIECE LIVING trademark.

In March 2007 Masterpiece brought an application in the Federal Court to expunge Alavida's MASTERPIECE LIVING registration on the basis that, at the time Alavida's application was filed, the MASTERPIECE LIVING trademark was confusing with Masterpiece's trademarks and trade names which had been previously used in Canada.

Federal Court and Court of Appeal decisions

At trial, Masterpiece's application to expunge the registration was dismissed. The trial judge found that Masterpiece had established some use of MASTERPIECE as a trademark and a trade name. He also found that while MASTERPIECE possessed some inherent distinctiveness in relation to retirement residence services, Masterpiece had acquired no distinctiveness in the term because it had established only rather sporadic use. In considering the resemblance between the marks, the trial judge took into account the manner in which Alavida actually used its mark post-registration, which was different from Masterpiece's use, and concluded that the differences in the appearance of the parties' marks as used served to reduce the likelihood of confusion. Another factor which, to the trial judge, reduced the likelihood of confusion was the fact that a consumer's choice of retirement residence is an important and expensive decision and therefore greater care would be taken in making a purchasing decision.

On this basis, the trial judge found that there was no likelihood of confusion between Masterpiece's trade name and trademarks and Alavida's registered trademarks. Masterpiece appealed.

The Federal Court of Appeal also disagreed with Masterpiece's argument that confusion between the parties' marks was likely, and dismissed the appeal. The Federal Court of Appeal generally agreed with the trial judge's decision and found no palpable and overriding errors in his analysis. The court rejected as irrelevant Masterpiece's evidence that it had unexecuted plans to expand its operations into geographical areas that were much closer to Alavida's market. The court stated that "[a]t the date of filing the respondent [Alavida's] trademark, the appellant [Masterpiece] did not sell its product in the same market as the respondent. This Court need not consider the appellant's plans for expansion after that date". The court rejected Masterpiece's appeal and upheld Alavida's registration.

Supreme Court decision

On appeal to the Supreme Court of Canada, the court considered four questions:

- Is the location where a mark is used relevant when considering the likelihood of confusion between an applied for or registered trademark and a prior unregistered trademark or trade name?

- What considerations are applicable in the assessment of the resemblance between a proposed use trademark and an existing unregistered trademark?
- When considering the “nature of the trade” under Section 6(5) of the Trademarks Act, what effect does the nature and cost of the wares or services have on the confusion analysis?
- When should courts take into account expert evidence in trademark or trade name confusion cases?

Location of use

The International Trademark Association intervened solely on the first question and submitted that geographical separation should not be a consideration in assessing the likelihood of confusion. The court agreed and categorically stated that the Canadian trademarks regime is national in scope, dispelling any doubt as to whether geography is relevant to assessing the likelihood of confusion. The court noted that “in order for the owner of a registered trademark to have exclusive use of the trademark throughout Canada, there cannot be a likelihood of confusion with another trademark anywhere in the country”. As established in the wording of the Trademarks Act, the test for confusion is a hypothetical one based on the assumption that both marks are used in the same area, whether or not this is actually the case.

Assessing resemblance

The court then turned its focus to what ought to be considered when assessing the resemblance between a registered trademark and an unregistered trademark. It reminded the lower courts that where, as here, a party is relying on more than one mark in its attempt to establish a likelihood of confusion, a separate analysis of each trade name or trademark relied upon is required. The trial judge erred in this regard in only considering the issue of resemblance between Alavida’s registration and all of Masterpiece’s trademarks and trade name generally.

In a typical case (and indeed in the lower courts), the confusion analysis generally proceeds by considering the factors enumerated in Section 6(5) of the Trademarks Act in the order that they appear in that section. The first consideration is the inherent and acquired distinctiveness of the marks and the length of time for which they have been in use. Then, consideration is given to the nature of the wares, services and trade. Finally, the analysis turns to the resemblance between the marks in appearance, sound or idea suggested, before turning to any non-enumerated surrounding circumstances relevant to the particular case.

The Supreme Court noted that while it is not an error of law to consider the enumerated Section 6(5) factors in the order set out in the act, the degree of resemblance “is the statutory factor that is often likely to have the greatest effect on the confusion analysis”. Therefore, the Supreme Court essentially reversed the typical order of the confusion analysis and decided that a consideration of resemblance is where most confusion analyses should start.

The Supreme Court also reminded the courts below that when considering a registered trademark, the analysis should not be restricted to the manner in which the mark has actually been used post-registration. Because Alavida’s registration was for a simple word mark, the registration would permit Alavida to use the words MASTERPIECE LIVING in any colour, size, font style or design. By considering how the registered trademark was actually used, the lower courts only took into account “a single form of the trademark that Alavida used after the relevant date. This single use did not reflect the entire scope of exclusive rights that were granted to Alavida under its registration”. Rather than looking at how the mark is used, the analysis should address the actual mark for which registration was obtained.

In contrast, when considering unregistered trademarks, such as

those relied upon by Masterpiece, the analysis will necessarily be restricted to the manner in which the marks are actually used.

Previous cases have held that the first word or element of a trademark is the most important for purposes of distinctiveness. The Supreme Court has now adjusted this approach, noting that while the first word may be the most important, in some cases (as in this one), a “preferable approach is to first consider whether there is an aspect of the trademark that is particularly striking or unique”. The striking or unique aspects of the trademarks should be considered to be the most important for the distinctiveness purposes, regardless of whether it is the first word or element.

“Nature of the trade”

The Supreme Court confirmed that the first impression of consumers is the focus of the confusion analysis, even where goods are expensive. The trial judge held that because of the high cost of retirement residences, consumers are likely to take more care in making a decision and will therefore be less likely to be confused by similar trademarks. The Supreme Court held that in his analysis, the trial judge effectively changed the test for confusion from one of first impression to a test of consumers being “unlikely to make choices based on first impression”. The court noted: “It is confusion when they encounter the trademarks that is relevant. Careful research which may later remedy confusion does not mean that no confusion ever existed or that it will not continue to exist in the minds of consumers who did not carry out that research.” The court went on to say: “Indeed, *before* source confusion is remedied, it may lead a consumer to seek out, consider or purchase the wares or services from a source they previously had no awareness of or interest in. Such diversion diminishes the value of the goodwill associated with the trademark and business the consumer initially thought he or she was encountering in seeing the trademark. Leading consumers astray in this way is one of the evils that trademark law seeks to remedy. Consumers of expensive wares or services and owners of the associated trademarks are entitled to trademark guidance and protection as much as those acquiring and selling inexpensive wares or services.”

Expert evidence

The Supreme Court of Canada reminded us that in order for expert evidence to be accepted, it must provide information that is outside the experience and knowledge of the trier of fact. In a situation where the casual consumer is not particularly skilled or knowledgeable, and there is a resemblance between the marks, expert evidence that simply assesses the degree of resemblance will not generally be necessary and could in fact be “positively unhelpful”. The trier of fact can use his own common sense, excluding influences of his own “idiosyncratic knowledge or temperament” to determine whether a casual consumer would be confused.

With respect to survey evidence, the Supreme Court noted that surveys have the potential to provide empirical evidence of consumer reactions, which is the type of evidence that would not be known to the trier of fact, and therefore may be useful to the court. However, the court cautioned against survey evidence, particularly where there is insufficient use of the first mark to establish a requisite imperfect recollection.

The Supreme Court suggests that the admissibility and usefulness of expert evidence in general should be determined on a case-by-case basis by a case management judge early in the process, so as to avoid large expenditures of resources on evidence of little utility. Insofar as survey evidence is concerned, the Supreme Court suggested that it would be useful to have the scope and methodology of the proposed survey considered within the case management process because surveys are “sometimes based on

wrong questions and produce irrelevant or unhelpful responses”.

Implications

Over the past five years, the Supreme Court of Canada has taken considerable interest in trademark issues and the cumulative effect of the court's decisions is generally positive for trademark owners. In *Mattel* the court looked at some of the fundamental principles of trademark law before emphasising that the Canadian trademark regime is flexible enough to protect famous marks. In *Veuve Cliquot* the court breathed new life in to the cause of action based on depreciation of goodwill. Both decisions were welcomed by trademark owners. *Masterpiece* should also be welcomed for taking a rather common-sense approach to the determination of confusion:

- The degree of resemblance is often the factor that has the greatest effect on the confusion analysis;
- In assessing the marks, it is not necessarily the first word or element that is the most important – the court should consider whether there is an aspect that is particularly unique or striking; and
- Confusion is to be assessed as a matter of first impression, not after consumers have done careful research or investigation.

From a practical perspective, the case demonstrates the importance of applying to register your trademarks as early as possible. Had *Masterpiece* done so, it would have avoided the protracted and doubtless expensive legal battle with *Alavida* over entitlement to the trademark. Nevertheless, owners of unregistered marks can take comfort in the

decision, in that it confirms that Canada remains a first to use jurisdiction and that prior common law rights can be used to prevent the subsequent registration of a confusing mark.

The court's approach to the admission of expert evidence is also important. The court has clearly discouraged the use of certain expert evidence in trademark proceedings, stating that: “Courts must fulfill their gatekeeper role to ensure that unnecessary, irrelevant and potentially distracting expert and survey evidence is not allowed to extend and complicate court proceedings”. The real issue now becomes how the lower courts will deal with the suggestion that survey evidence should be addressed early on in the litigation process in the case management process.

Taken in conjunction with the recent Federal Court of Appeal decision in *BBM Canada v Research In Motion Ltd*, where it was held that trademark infringement proceedings may be commenced by way of an application (and not only by the traditional costly and lengthy action), one can begin to see a larger movement by the courts in Canada to streamline trademark enforcement proceedings by making them more accessible and efficient. This is welcome news for rights holders, which may now achieve a more cost-effective and timely resolution in Canadian trademark enforcement proceedings. [WTR](#)

Robert A MacDonald is a partner and **Michael O'Neill** an associate at **Gowlings**
robert.macdonald@gowlings.com
michael.oneill@gowlings.com



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B
BUGNION_{S.p.A.}

Intellectual Property Consultants
Italian and European Patent, Design and Trademark Attorneys

BUGNION S.p.A. IP Consultants - Viale Lancetti 17 - 20158 Milan, ITALY - tel +39 02 693031 - fordep@bugnion.it
www.bugnion.it

cg: www.pontedilegrossette.net