

Blakes Bulletin

Intellectual Property

Supreme Court of Canada Rules on Test for Likelihood of Confusion in Trade-Mark Cases

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The Supreme Court of Canada (the SCC) handed down its much-anticipated decision in *Masterpiece Inc. v. Alavida Lifestyles Inc.* The decision is noteworthy for trade-mark owners. While confirming one aspect of Canadian trade-mark law, it contained one surprise and perhaps an unintended benefit for trade-mark owners fighting trade-mark violations on the Internet by opening the door to the doctrine of “initial interest confusion” in Canada. The SCC also provided comments on the use of expert evidence in Canadian trade-mark cases.

Masterpiece and Alavida both operate in the retirement residence industry. In 2001, Masterpiece started using trade-marks containing the word “masterpiece” in association with its business in Alberta. In 2005, Alavida applied to register the trade-mark MASTERPIECE LIVING on the basis of proposed use, began using the trade-mark in Ontario shortly thereafter, and ultimately obtained a registration for that trade-mark.

Masterpiece applied to the Federal Court to expunge Alavida’s registration on the basis that Masterpiece had previously used a confusing trade-mark. Masterpiece had not opposed Alavida’s application during the application process.

The trial judge dismissed Masterpiece’s application to expunge Alavida’s registration and that dismissal was upheld by the Federal Court of Appeal. The lower courts found that the trade-marks were not confusing. The lower courts appeared to be influenced by the facts that:

- the parties used their respective trade-marks in different geographic regions of Canada; and
- consumers were unlikely to be confused by similar trade-marks containing “masterpiece” for similar services, given the care and attention one might be expected to use in selecting a retirement residence.

The SCC confirmed that Canada’s trade-mark regime is a national one, a concept that appeared to be overlooked by the lower courts. It found that there was indeed a likelihood of confusion between the parties’ respective trade-marks. At least for the purposes of determining whether Alavida was entitled to registration of its trade-mark, the SCC noted that the fact that Masterpiece had used its trade-mark in a different part of Canada did not matter.

In this respect, the decision applied the *Trade-marks Act* which provides that the test for confusion requires the hypothetical assumption that the trade-marks at issue are used in the same area, even if they are not. In order for the owner of a trade-mark to obtain the exclusive right to the use of the mark throughout Canada, the mark cannot be confusing with any trade-mark previously used anywhere in Canada.

More surprisingly, the SCC held that the lower courts erred in determining that, just because consumers of more expensive goods or services may take more care and time in selecting such goods or services they ultimately will purchase, the likelihood of confusion is not necessarily reduced. It held that confusion must be assessed from the perspective of the *first impression* of the consumer approaching the purchasing decision.

The possibility that subsequent careful research could later remedy initial confusion does not mean that no confusion ever existed. These comments run contrary to the prevailing view that the likelihood of confusion is inversely proportional to the degree of care that a prospective purchaser of the goods or services would take in making its purchasing decision and that, if there is no confusion at the time of the actual purchase, there is no confusion.

The SCC appears to have opened the door in Canada to the doctrine of “initial interest confusion”. In that regard, this decision may be particularly helpful both for the owners of trade-marks relating to goods and services which are either expensive or involve a great deal of care in the purchasing decision.

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Moreover, the decision may have an unintended broader benefit to the owners of trade-marks and registrants of domain names, arming them with an additional tool to use against violators of rights on the Internet, including cybersquatters. On the basis of this decision, trade-mark owners may be able to succeed on the argument that once a visitor is misdirected to a website it did not intend to visit by an unauthorized keyword, metatag or domain name, it does not matter that the visitor realizes that they are not at the intended website or that there is otherwise no connection between this website and the trade-mark owner. A trade-mark owner may now argue that, to the extent that there has been at least initial interest confusion, this is sufficient to ground a claim for passing-off or trade-mark infringement.

Finally, the SCC went to some length to comment on the role of expert evidence in cases where the likelihood of confusion is an issue. In this case, Alavida's expert appeared to dissect the trade-marks in issue and offer evidence as to how consumers would perceive those trade-marks. While the SCC did not come out and say that it would not admit expert evidence in trade-mark cases, such as a properly conducted consumer survey, it did caution judges to be careful to question the necessity and relevance of expert evidence in light of its costs. It suggested that the need and desirability for such evidence be canvassed at the required pre-trial conference.

In summary, having found that: (i) Masterpiece used its similar trade-mark prior to Alavida's application to register or first use of its trade-mark in Canada; (ii) such use being in a different part of Canada did not matter; and (iii) consumers may encounter initial interest confusion, even if such confusion is remedied before making the ultimate purchase decision, the SCC found that the trade-marks were confusing.

Having come to the conclusion that the trade-marks were confusing, and that Masterpiece had used a confusing trade-mark in Canada prior to Alavida's application to register the trade-mark which became the subject of the registration, the SCC allowed the appeal and expunged Alavida's registration.

This decision reinforces an existing principle of Canadian trade-mark law namely that, in the case of confusing trade-marks, superior rights go to the person who is first to adopt the trade-mark anywhere in Canada, whether such adoption is by filing an application in Canada, making a trade-mark known in Canada, or using the trade-mark in Canada.

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