

Mine's Better than Yours: Managing Legal Considerations in Comparative Advertising Campaigns

Presented by

Brian Fraser, Partner, Hooey Remus LLP

David Grad, Vice President, General Counsel and Secretary, ING Bank of Canada

and

Bill Hearn, Partner, McMillan Binch Mendelsohn LLP

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INTRODUCTION

Comparative advertising is a popular promotional technique which can be very effective. However, there is also a fine line between what is considered a fair comparative claim and what may be considered a violation of one of the many applicable statutory regimes or industry codes governing this complex area of the law. In order to employ an effective campaign or to successfully challenge an unfair claim, advertisers need to understand the legal rules of the road for comparative claims. This paper provides an overview of some of the key elements of the legal and regulatory framework, as well as a discussion of some important past experiences of advertisers in this area.

LEGAL FRAMEWORK

1. Competition Act²

The Competition Act is a federal law governing most business conduct in Canada. It is aimed at preventing anti-competitive practices in the marketplace. With respect to comparative advertising, the Act provides for enforcement via either criminal or civil proceedings. The main criminal and civil provisions of the Act governing misleading advertising both prohibit claims which are “false or misleading in a material respect”. However, the criminal provision contains an element of “mens rea”, or requisite “intent”, while the civil provision does not. The Act does not provide further statutory definitions of “false” or “misleading”, but the statute provides that the general impression – or overall impact - of the advertisement, not just its

¹ This paper has been prepared by Jillian Fleisch, an articling student at McMillan Binch Mendelsohn LLP under the supervision of Bill Hearn, David Grad and Brian Fraser.

² Competition Act, R.S.C. 1985, c. C-34.

literal meaning, must be taken into account in determining whether a particular representation is false or misleading. A representation is “material” (i.e., potentially false or misleading in a “material” respect) if it is likely to influence a consumer’s behaviour or purchasing decision.

(a) Criminal Provisions

Section 52(1) contains the general criminal prohibition against misleading advertising. It provides that “no person shall, for the purpose of promoting, directly or indirectly, the supply or use of a product or for the purpose of promoting, directly or indirectly, any business interest, by any means whatever, knowingly or recklessly make a representation to the public that is false or misleading in a material respect.” This provision requires that the crown prove beyond a reasonable doubt that the defendant “knowingly” or “recklessly” made a misleading or false representation. While this mental element is required for a criminal prosecution, the Act does not require proof that any person was actually deceived or misled.³

The Competition Bureau’s Information Bulletin Misleading Representations and Deceptive Marketing Practices: Choice of Criminal or Civil Track under the Competition Act states that two criteria must be satisfied for the Bureau to proceed via the criminal track of enforcement: (1) there must be clear and compelling evidence that the advertiser knowingly or recklessly made a false or misleading representation to the public; and (2) a criminal prosecution must be in the public interest.⁴ In determining whether a prosecution is in the “public interest”, the Bureau will consider several factors, including the nature of the false or misleading claim, the number of people affected by the claim as well as whether a vulnerable audience was targeted. If the Commissioner is satisfied that a criminal prosecution is the proper route, then a

³ *Supra* note 2 at s. 52(1.1).

⁴ Misleading Representations and Deceptive Marketing Practices: Choice of Criminal or Civil Track under the Competition Act, Industry Canada, 1999.

recommendation is made to the Attorney General of Canada, who is responsible for the ultimate determination of whether to prosecute. A person found guilty on indictment is liable to a fine in the discretion of the court or to imprisonment for a term not exceeding five years or to both. A person found guilty on summary conviction is liable to a fine not exceeding \$200,000 or to imprisonment for a term not exceeding one year or to both.⁵

One way that private parties may use the courts to challenge comparative advertising claims is through section 36. This provision provides injured parties with the opportunity to pursue civil proceedings against offending advertisers. However, this action is limited to conduct that is contrary to Part VI⁶ (the criminal provisions) and therefore private actions for misleading advertising face the hurdle of establishing that the offending advertiser “knowingly or recklessly” made a false or misleading representation . There is no analogous action available to private parties for breaches of the civil provisions. Under section 36, a party may sue for an amount equal to the loss or damage proved to have been suffered by that party, together with any additional amount that the court may allow not exceeding the full cost to that party of any investigation in connection with the matter and of proceedings under the section.⁷

(b) Civil Provisions

The Competition Act was amended almost a decade ago to include a “civil” track of enforcement, in addition to the pre-existing criminal track. Section 74.01(1)(a) provides that “a person engages in reviewable conduct who, for the purpose of promoting, directly or indirectly, the supply or use of a product or for the purpose of promoting, directly or indirectly, any business interest, by any means whatever, makes a representation to the public that is false or

⁵ *Supra* note 2 at s. 52(5).

⁶ Competition Act, at s. 36(1)(a).

misleading in a material respect.”. These provisions were introduced because it was thought that the criminal process was an ill-suited remedy for most cases of misleading advertising in two ways: first, because the criminal action was too severe a penalty for much advertising activity that crossed the line; and second, because the requirement of proof beyond a reasonable doubt was a difficult hurdle in the way of effective enforcement. In theory, the goal was to facilitate the ability of the regulators to put a quick stop to the market-distorting effects of misleading advertising, without the hammer of criminal sanctions. On the theory that the goal of the civil provisions is to promote compliance and not punishment, the remedies available include cease and desist orders and penalties but do not include imprisonment or “fines”.⁸ The civil remedies may also include, however, the issuance of corrective advertising, which can be costly, and the imposition of an “administrative monetary penalty” (AMP), which for corporate miscreants can be \$100,000 for a first order and \$200,000 for subsequent orders.

2. Trade-marks Act⁹

While it is tempting for advertisers employing comparative advertising campaigns to want to include a competitor’s name, product, a picture of the product, the product’s packaging or all of the above, each of these uses may be a violation of the Trade-marks Act. Advertisers should not proceed with a comparative advertising campaign without understanding the limitations on use of the intellectual property of their competitors, including trade-mark rights. Rights in trade-marks arise from use and therefore there is no legal requirement that a trade-mark be registered in order for the “user” to enforce rights. There are, however, significant advantages to registering a trade-mark. If a trade-mark is unregistered, its owner must rely on the

⁷ *Supra*, note 2 at s. 36(1) (b).

⁸ *Supra*, note 2 at s. 74.1 (4).

common law action of “passing-off” to prevent competitors from supplying the market with goods that are confusingly similar to those of the owner. In a “passing-off” action, the trade-mark owner must prove that the trade-mark is associated in the market with the goods and that the trade-mark actually distinguishes the product from competing products. Where registration is made, the trade-mark owner is relieved of this burden, as the trade-mark is presumed to be distinctive of the trade-mark owner’s goods.

There are several provisions of the Trade-marks Act that pertain to the use of a competitor’s trade-marks. Advertisers should be aware of these provisions, both to understand the beneficial protections which they may rely on in challenging an advertising campaign and to understand the potential hurdles to use of a competitor’s trade-mark in the context of a comparative advertising campaign.

(a) Infringement

One protection which only exists for registered owners is the exclusive right to use the trade-mark in relation to the goods or services for which it is registered.¹⁰ This exclusive right means that if someone else uses the registered mark, including a competitor, this may be considered an infringement of the registered owner’s right. Additionally, section 20(1) elaborates on this exclusive use and its infringement and deems an infringement to have occurred where a person not entitled to its use “sells, distributes or advertises wares or services in association with a confusing trade-mark or trade name”.¹¹ While advertisers should be cautious to avoid infringement, the judicial interpretation of the term “use” does limit the risk of a violation.

⁹ Trade-marks Act, R.S.C. 1985, c. T-13.

¹⁰ *Supra* note 9 at s. 19.

¹¹ *Supra* note 9 at s. 20(1).

In *Clairol Inc. of Canada v. Thomas Supply & Equipment Co. Ltd. et al.*,¹² the plaintiff sought an injunction to stop the defendant from using Clairol's registered trade-marks. In determining whether an infringement had occurred, the court held that section 19 required two separate elements of proof: (a) did the defendant associate its wares or services with the plaintiff's trade-marks and (b) did the defendant use the mark as a trade-mark for the purpose of distinguishing or identifying the defendant's wares or services in connection with the plaintiff's wares or services. In *Clairol*, the presence of the plaintiff's marks on the defendant's packages was determined to be a use of those marks "in association with" the wares in the defendant's packages within the meaning of section 4(1). However, Mr. Justice Thurlow concluded that because the use "in association with" the defendant's goods was not a use for the purpose of distinguishing the goods as goods of the defendant, there was no infringement of the exclusive right conferred on the plaintiff by section 19.

Interestingly, the use of the plaintiff's marks on the comparative shade charts of the defendant's brochures was held not to be a use of such marks within the meaning of section 4(1) since the brochures were neither the wares themselves nor the packages in which the wares were distributed.¹³ In essence, section 4 deems a trade-mark to be used with services when it appears in advertising, but not when it appears in advertising for wares. A mark is only "used" with wares under section 4 when it is placed on the goods or on packaging or otherwise brought to the consumer's attention in association with the goods at point of sale or transfer.¹⁴

¹² *Clairol Inc. of Canada v. Thomas Supply & Equipment Co. Ltd. et al.*, [1968] 55 C.P.R. 176 [hereinafter referred to as *Clairol*].

¹³ [1968] 55 C.P.R. 176.

¹⁴ Kevin Sartorio & Scott R. Jolliffe, *The rebirth of Section 22 of Canada's Trade-Marks Act and an Anti-Dilution Remedy*, 96 *Trademark Rep.* 1020 (2006) at pg. 1027.

Section 19 on its own is considered a narrow cause of action, however section 20 is broader and includes the use of a trade-mark or trade-name that is confusingly similar to the registered mark (the trade-mark used is not required to be identical).

(b) False or Misleading Statements

Section 7(a) provides that “no person shall make a false or misleading statement tending to discredit the business, wares or services of a competitor”. This section applies to both registered owners and non-registered owners. In *S & S Industries Inc. v. Rowell*,¹⁵ the Supreme Court considered this section and concluded that the essential elements of such an action were: (a) a false or misleading statement; (b) tending to discredit the business, wares or services of a competitor; and (c) resulting damage. There is no requirement that the false or misleading statement be made with knowledge of its falsity or with malice or intent to injure, or that the defendant lacked reasonable grounds for believing that the statement was true.¹⁶

(c) Passing-Off

Section 7(b) and the common law prohibit passing-off. Section 7(b) can be relied on by both registered and non-registered trade-mark holders. Passing-off protects the goodwill of the plaintiff’s business from misrepresentations made by the defendant that its goods or services are those of the plaintiff.¹⁷ The three necessary elements for a passing-off action are: (a) the existence of goodwill; (b) the deception of the public due to misrepresentation; and (c) actual or potential damage to the plaintiff.¹⁸ Assuming that a competitor is able to prove that it has a well-known trade-mark, one way in which to help defend against the second element is to ensure that your own trade-marks are more prominent than your competitor’s in any ad. In some

¹⁵ *S & S Industries Inc. v. Rowell*, [1966] S.C.R. 419.

¹⁶ *UL Canada Inc. v. Proctor & Gamble Inc.* (1996), 65 C.P.R. (3d) 534 (Ont. Gen. Div.).

¹⁷ Philip H. Osborne, *The Law of Torts*, 2d ed. (Toronto: Irwin Law, 2003) (QL).

instances, the use of a disclaimer indicating that your competitor is not affiliated with the advertisement is also prudent.

(d) Depreciation of Goodwill

Section 22(1) provides protection to registered trade-mark owners against depreciation of goodwill. It provides that “no person shall use a trade-mark registered by another person in a manner that is likely to have the effect of depreciating the value of the goodwill attaching thereto”. When section 22 was introduced, it was considered to be an encompassing and flexible provision, which provided an alternative or additional form of relief in situations of unfair competition that might not constitute grounds for an infringement or passing-off action.¹⁹ However, many commentators are of the view the original intentions of section were quickly lost in subsequent court cases. Section 22 was first considered at length in the *Clairol* decision where the court concluded that while the defendant’s use of the plaintiff’s mark was likely to depreciate the value of the goodwill attaching, section 22 was violated only by the defendant’s use of the mark on product packaging and not on advertising for the products.²⁰ This conclusion was based on the narrow definition of “use” under section 4.

Following the strict logic of the *Clairol* decision, use by a defendant of a competitor’s trade-mark in a television or printed advertisement is not prohibited, although use of a competitor's trade-mark on the defendant's product (e.g., by way of a comparison chart on

¹⁸ *Ciba Geigy Canada v. Apotex* (1992), 44 C.P.R. (3d) 289 (S.C.C.).

¹⁹ Kevin Sartorio & Scott R. Jolliffe, *The rebirth of Section 22 of Canada’s Trade-Marks Act and an Anti-Dilution Remedy*, 96 Trademark Rep. 1020 (2006) at pg. 1021.

²⁰ *Supra* note 12.

the label) would fall within this prohibition. Most commentators²¹ believe this interpretation of “use” is far too restrictive and renders section 22 effectively meaningless.

Subsequent cases have only served to complicate matters further. The courts in several cases²² have concluded, albeit somewhat reluctantly, that comparative use of trade-marks in advertising for “wares” will not offend section 22, but that comparative use of trade-marks in advertising for “services” will.

A decision in British Columbia²³ added another layer of complexity to the analysis, by concluding that the relevant question is whether the use of a competitor’s trade-mark (in this case, a trade-mark registered in connection with services) is for a purpose which stresses the similarities or the differences with the competition. In the Court’s view, if the use of the trade-mark in the advertisement is for the purpose of stressing the similarities, then the value of the goodwill associated with the trade-mark would be appropriated contrary to section 22. If, on the other hand, the use in the advertisement is for the purpose of stressing the differences with the competitive trade-mark, then section 22 would not apply.

Most commentators agree that the current state of the law in this regard is unsatisfactory and it is hoped that either the courts or the legislature will attempt to bring some conceptual clarity to the question of the comparative use of trade-marks in the not-too-distant future.

²¹ See, for example Robic and Léger, *Canadian Trade-Marks Act Annotated* (Toronto: De Boo, 1991) at 2-4 and W. Lee Webster, “Trade Marks and Comparative Advertising” presented at the Canadian Institute’s conference *Misleading Advertising*, October 23, 1995.

²² See *Purolator Courier v. Mayne Nickless* (1990), 37 F.T.R. 215; *Purolator Courier v. Canadian Pacific Express*, unreported decision of the Ontario Supreme Court, November 25, 1988, (Court File No. 33310/88) and *Eye Masters Ltd. v. Ross King Holdings Ltd.* (1992), 44 C.P.R. (3d) 459.

²³ *Future Shop Ltd. et. al. v. A&B Sound Ltd. et. al.*, (1994), ss C.P.R. (3d) 182 (B.C.S.C.).

Very recently, the Supreme Court of Canada breathed new life into section 22, in a somewhat different context.²⁴ In this decision, the International Trademark Association was given leave to intervene to address the issue of section 22. The decision clarifies that section 22 has four elements. First, that a claimant's registered trade-mark was used (does not require identical use) by the defendant in connection with wares or services - whether or not such wares and services are competitive with those of the claimant. Second, that the claimant's registered trade-mark is sufficiently well known to have significant goodwill attached to it. Third, the claimant's mark was used in a manner likely to have an effect on that goodwill (linkage). And fourth, that the likely effect would be to depreciate the value of its goodwill (damage).²⁵ The court also stated that the requirements of section 22 must be interpreted in light of its remedial purposes.

3. Copyright Act

Copyright is infringed when a work (including an artistic work, such as a logo, or a literary work, such as advertising copy) or any substantial part of the work, is copied. "Copying", for copyright purposes, only amounts to infringement when the form of the work, and not the underlying ideas, is copied. A work may originally be produced in one dimension and copied in another, so that copyright in a drawing of a proposed package may be infringed by actual production of such a package by a competitor. Where an advertiser copies the logo or packaging of a competitor, an action may well lie both for trade-mark infringement and copyright infringement. Generally speaking, the trade-mark protection is likely to be the only protection afforded "word"

²⁴ *Veuve Clicquot Ponsardin v. Boutiques Cliquot Ltje*, 2006 SCC 23.

²⁵ Kevin Sartorio & Scott R. Jolliffe, *The rebirth of Section 22 of Canada's Trade-Marks Act and an Anti-Dilution Remedy*, 96 *Trademark Rep.* 1020 (2006) at pg. 1021.

marks and short slogans, while “design” marks, including logos and package graphics, may be entitled both to trade-mark and copyright protection.

4. Torts of Injurious Falsehood and Wrongful Interference with Economic Relations

Injurious falsehood is a common law cause of action which may be invoked in a comparative advertising dispute. This cause of action relates to false statements that disparage the nature of a person’s business. The elements for a successful action include that: (a) the statements made were false; (b) the statements were made with the intent to harm the other person without lawful justification or for a dishonest or improper motive; (c) the impugned person has been identified in some way; and (d) the person has suffered, or will suffer economic loss. The false statements must be made to a third person; the plaintiff will not be able to establish that its losses were caused by the defendant’s statements in the absence of proof that third parties were aware of them.²⁶ Additionally, while it is clear that identification of the injured party is necessary, it is possible for this element to be met without a plaintiff being directly identified.²⁷

The tort of wrongful interference with economic relations has recently been advanced as an alternative ground to pursue disparaging comparative advertising campaigns. In order to establish that an action exists, the complainant must establish that the competitor has committed an independent “unlawful act” with the intention of interfering with the complainant’s economic relations and that the complainant has suffered a loss. Proof of an unlawful act is established by proving a breach of one or more statutory provisions, such as the above mentioned statutes.

²⁶ *Supra* note 17.

SELF-REGULATORY FRAMEWORK

5. Advertising Standards Canada (ASC)

ASC is the Canadian advertising industry's main self-regulatory body. ASC is currently celebrating its 50th anniversary. It was founded by members of the advertising community on the belief that advertising self-regulation best serves the interests of the industry and the public. ASC members include leading Canadian media organizations, advertisers, advertising agencies and suppliers to the advertising sector.

ASC first published the Canadian Code of Advertising Standards (the "Code") in 1963 and regularly updates it. The Code sets the criteria for acceptable advertising and forms the basis upon which advertising is evaluated in response to complaints by consumers, trade members or special interest groups. It is supplemented by Interpretation Guidelines and the Comparative Advertising Guidelines. While the Code addresses many of the same key issues as the Competition Act, there are some important differences. One difference of relevance to comparative advertising is that Clause 6 of the Code specifically states that "advertisements must not *unfairly* discredit, disparage or attack other products, services, advertisements or companies, or exaggerate the nature or importance of competitive differences". This is important in two respects: first, the use of the term "unfairly" arguably means that some form of attack, discrediting or disparaging is acceptable²⁸; and second, it provides a wider scope for challenge – unfairness and exaggeration – than offered by the provisions of the Competition Act.

²⁷ *Purolator Courier Ltd. v. United Parcel Services Canada Ltd.* (1995), 60 C.P.R. (3d) 473.

²⁸ James Musgrove, "The Canadian Law of Comparative Advertising: Bigger and Better! (Paper presented at the Canadian Institute's 12th Annual Advertising And Marketing Law Conference, 26-27 January 2006).

ASC offers an alternative route to the legal regime by providing a dispute procedure for potential Code violations. This can be a useful route for both consumers and competitors.

(a) Consumer Complaint Procedure

ASC accepts and responds to written complaints from consumers about current Canadian advertisements. Complaints that raise a potential Code issue are moved through the procedure, complaints that do not raise a Code issue are responded to with a letter of explanation from ASC.

When a Code issue has been raised, the consumer complaint procedure is triggered.²⁹ After ASC has reviewed the complaint, the advertiser is asked to provide a written comment addressing the consumer's concerns (within 10 business days). ASC reviews the advertiser's response and if a potential Code issue remains, the complaint is forwarded to Council for review. Council is composed of independent, volunteer bodies from the advertising industry and the public. If Council determines that the ad contravenes one or more clauses of the Code, Council will ask the advertiser to amend or withdraw the ad. ASC will inform the consumer and the advertiser in writing of Council's decision. Similarly, if Council determines that there is no contravention of the Code, ASC will inform the consumer and the advertiser in writing of their decision. If the consumer or advertiser disagrees with Council's decision, the consumer or advertiser can request an appeal within seven days of receiving the decision.

²⁹ This procedure does not apply where the issue relates to Clauses 10 (Safety) or 14 (Unacceptable Depictions and Portrayals) of the Code.

(b) Trade Dispute Procedure

Since 1976, ASC has offered the Trade Dispute Procedure. This procedure provides industry with a mechanism to handle competitive disputes about advertising in a confidential, informal forum. It is widely viewed as an effective channel for advertisers to resolve their disputes.

Again, competitor's complaints against an advertiser must be based on provisions of the Code. The complainant submits a written and signed complaint to ASC. Initially, the complainant has the burden of convincing ASC that there are reasonable grounds to proceed with their complaint. Once ASC has verified and agreed that a Code violation may have occurred, a copy of the complaint is provided to the potentially offending advertiser. Next, ASC convenes and participates in one or more mandatory resolution meetings between the parties, at which ASC actively assists the parties in an effort to reach a mutually acceptable complaint resolution. ASC reports that these meetings result in 80% of the disputes being settled.³⁰ If no resolution is achieved, then a five-member Trade Dispute Panel is established from a special resource group and a hearing date is set.

Both parties submit written arguments and evidence prior to the hearing. At the hearing, each party presents an uninterrupted presentation of its position. Upon completion, the opposing party has the opportunity to question and challenge the presenting party's position. Within four days of the hearing, the Panel decides whether, on a balance of probabilities, a breach of the Code has occurred. Following notice of the Panel's decision, either party may

³⁰ "Trade Disputes: An efficient process to resolve disputes between advertisers" Advertising Standards Canada (2007) at 21.

request a review of the decision if it can demonstrate that a misinterpretation of evidence and/or a misapplication of a provision of the Code has occurred.

This procedure offers several potential advantages to advertisers over litigation or a complaint to the regulators. Because the procedure is confidential, there is little to no negative publicity. Additionally, because it is a non-judicial forum, disputes are handled quickly; the total estimated time from complaint to decision is 30-40 working days. Also, while there are fees associated with the filings involved, they are generally less costly than court proceedings. Finally, while the remedy is limited to withdrawal of the offending advertisement, this is often the critical remedy sought by the complainant.

Recently, the Code was amended to further clarify that the ASC shall decline to accept, or to proceed further with a complaint about the same advertising by the same advertiser that is also the subject of litigation that previously was or is actively undertaken and pursued in Canada.

(c) Guidelines for the Use of Comparative Advertising

First published in 1982 by ASC, the Guidelines for the Use of Comparative Advertising Claims assist advertisers in developing comparative advertising that is consistent with the Code. Although, like the Code itself, the Guidelines have no legal force, compliance with them will assist an advertiser in defending a trade dispute claim.

Highlights of the Guidelines include the following provisions. A comparison must be a fair and factual comparison of similar properties, features, ingredients, benefits or performance. An example of this would be to make a comparison with a competitor's product that is no longer on the market, or where a competitor's product is a different size. Selected comparisons of specific features or attributes should not be used to claim or imply overall

superiority. For example, to claim a product is “better” or “best” based only on sales results would not be consistent with the Guidelines. Additionally, other products or services must not be unfairly discredited or disparaged by a specific claim in an advertisement or by the general impression conveyed by an advertisement. Claims which rely on research or survey data should follow ASC’s guidelines for the use of research data. Finally, advertisers involved in a trade dispute must provide ASC with adequate support for their advertising claims when requested to do so by ASC.

ASC has also published the Guidelines for the Use of Research and Survey Data to Support Comparative Advertising Claims. These Guidelines provide considerable detail on the principles of validity and reliability. An advertiser should consult these Guidelines at the outset of its development of a comparative advertising campaign. Claim substantiation is a critical aspect of employing a successful comparative advertising campaign. Supportive research and survey data is vital to have as the basis for a claim and must be compiled prior to the campaign’s commencement.

6. Industry Specific Organizations

Several industries have developed their own advertising standards. For obvious reasons, the pharmaceutical industry is subject to detailed regulatory standards. The Pharmaceutical Advertising Advisory Board (PAAB) is an independent review agency whose primary role is to ensure that advertising of prescription drugs is accurate, balanced and evidence-based. PAAB maintains a Code of Advertising Acceptance which governs claims for prescription and over-the-counter drugs and includes special provisions in section 5 relating to appropriate testing for comparative claims. Furthermore, Rx&D (the association of Canada’s

research-based pharmaceutical companies) has a Code of Conduct which requires that all members follow PAAB's Code of Advertising Acceptance as well as the Guidelines for General Advertising, Supplied Advertising Inserts, & Journal Supplements of the Canadian Association of Medical Publishers (CAMP). Rx&D monitors and enforces the Code through reviewing complaints via its Industry Practices Review Committee. Remedies include publication of infractions, fines of \$10K, \$15K, and \$25K for first, second and third offences, respectively, and ultimately expulsion from Rx&D of members who do not adhere to decisions of the Committee.

Likewise, the Ontario Motor Vehicle Industry Council (OMVIC) has a Code of Ethics and Standards for Business Practices which govern claims made by Ontario registered motor vehicle dealers. The Code prohibits advertising that is ambiguous or misleading due to unclear, unverifiable or inaccurate claims. It also warns dealers to refrain from unfairly attacking the products, services or business practices of others. The Code is monitored and enforced through a two-tiered system (involving a Remedial Panel and a Discipline Panel).

SELECTED COMPARATIVE ADVERTISING CAMPAIGNS

Claims substantiation is particularly important in respect of two types of claims: (1) "performance" claims and (2) "comparative" claims. Part VII of the Competition Act, requires advertisers to have adequate and proper tests to substantiate claims regarding the "performance, efficacy or length of life" of products. It is therefore essential when advertisers run a comparative advertising campaign, where "performance", "efficacy" or "length of life" claims are the essence of the comparison. As competitors are the most knowledgeable and alert observers of these campaigns, they will scrutinize them carefully and will jump at the opportunity to challenge them. Adequate and proper testing will minimize the likelihood of

challenges and will also help to protect an advertiser from liability if a campaign is challenged. In short, the ability to properly substantiate is the bedrock of a successful comparative advertising campaign.

(a) *BC Tel Mobility Cellular Inc. v. Rogers Cantel Inc.*³¹ (Claim Substantiation)

In *BC Tel v. Rogers*, the parties were competitors in the British Columbia cellular telephone network service market. Rogers retained an independent third party to conduct sound quality testing and relied on the results of this research in a massive advertising campaign. BC Tel brought a civil misleading advertising action challenging the survey methods employed and the criteria used. BC Tel also alleged that the claims did not adequately reflect the survey results. The advertisement depicted a mobile phone user in Stanley Park in Vancouver commenting on the clear quality of the sound. Among the objections to the study raised by BC Tel, however, with which the court agreed, was that the study assessed the strength of the signal sent by a mobile phone to a land line – not by a land line to a mobile phone, as depicted in the ad. The court reviewed the test for interlocutory injunctive relief – (1) whether there was a fair question to be tried; (2) irreparable harm; and (3) the balance of convenience and ultimately granted the injunction. On the question of a fair issue to be tried, the court concluded that the following all met the test: (1) whether the ad was a fair summary of the research report; (2) whether the report was flawed; and (3) whether the ads were “false or misleading” or “deceptive or unconscionable”. The BC Court of Appeal upheld the injunction. This case is instructive as a reminder that not only must the research itself be sound, but the claims made based on the research must fairly reflect the results.

³¹ *BC Tel Mobility Cellular Inc. v. Rogers Cantel Inc.*, 1995 CanLII 204 (BC C.A.) [hereinafter referred to as *BC Tel v. Rogers*].

(b) *Eveready Canada v. Duracell Canada Inc.*³² (Claim Substantiation)

In substantiating a claim, advertisers must ensure that any testing they rely on is completed before the claim is made and must remain valid throughout the life of the campaign. In *Eveready v. Duracell*, Duracell made a superiority claim suggesting its batteries lasted longer than Eveready batteries. To substantiate this claim, Duracell relied on test results which compared the Duracell battery to an Eveready battery that was thereafter replaced in the market with an improved version. At the time of Eveready's legal challenge to the Duracell campaign, Duracell had no tests involving the new Eveready product, as it was clearly still in the earliest stages of market introduction. While it transpired that Eveready had conducted some comparative tests of its own on the new battery, which arguably still showed some continuing, albeit small, superiority in favour of Duracell (at least according to Duracell – Eveready alleged that the results showed parity in one important category and statistically insignificant differences otherwise), the court refused to allow Duracell to rely on Eveready's tests "after the fact". The point here is clear – you must have adequate and proper test results in hand *before* you make your claim. It is not permissible to wait and see if a challenge is brought forward before attempting to substantiate, nor is it permissible to rely, after the fact, on your competitor's data, even if potentially favourable. Furthermore, the claim must remain accurate throughout the life of the campaign - changes in either your product or that of your competitor can vitiate the claim, even if the original test results are beyond reproach.

³²*Eveready Canada v. Duracell Canada Inc.* (1995), 64 C.P.R. (3d) 348 (Ont. Gen. Div.) [hereinafter referred to as *Eveready v. Duracell*].

(c) *Maple Leaf Foods v. Robin Hood Multifoods Inc.*³³ (*General Impression*)

In determining whether an advertisement is false or misleading, an ad must be examined as a whole to determine whether the general impression it conveys is false or misleading.³⁴ When Robin Hood introduced a frozen pie crust product combining a regular bottom crust with a fitted, lattice top crust, it ran an ad comparing their finished product with Maple Leaf Foods' finished product, depicted as an untouched bottom crust simply inverted as a top crust on the pie, giving it a comical, clam-shell like appearance . The slogan used was "their idea of a top crust". Maple Leaf Foods successfully brought a claim against Robin Hood claiming that the ad conveyed the misleading impression that its directions called for two misshapen pie crusts when, in fact, the directions explained how to convert a bottom crust into a proper fitted top crust. The decision serves as a reminder that literally true "statements" (in this case the evocation of the fact that Maple Leaf's package contained two identical "bottom" crusts) may still be considered to be misleading because of the general impression conveyed (in this case, by the misleading depiction of the final product).

³³ *Leaf Foods v. Robin Hood Multifoods Inc.* (1994), 17 B.L.R. (2d) 86.

³⁴ Both subsections 52(4) and 74.01(6) direct that the overall impression of an advertisement be taken into account in assessing whether the advertisement is acceptable.

LESSONS LEARNED

(d) **Some Basic Rules of Thumb in Executing a Compliant Comparative Advertising Campaign**

- (i) **Be Prepared:** Do your homework before launching a comparative claim.
- (ii) **Truth:** Ensure that the claims you are making, both directly and indirectly, are truthful. Complete the proper testing that is required to ensure that your substantiation obligation is met. Don't assume that US or other foreign comparisons or research are necessarily valid in Canada.
- (iii) **Substantiate Early, Often & Well:** Advertisers should ensure that the claims they are making are substantiated, both before making them and throughout the time that they are run. Research should be conducted in accordance with ASC's research and survey data guidelines. Test results should be reproducible and surveys based on representative samples.
- (iv) **Avoid Cherry Picking:** Advertisers should ensure that they are comparing relevant features and that they are not avoiding addressing their own product defects, if material to the comparison, or overlooking significant advantages of their competitor's product.

- (v) **Know the Law:** Consult with legal before running any campaigns. These consultations can help to minimize the risk of liability by ensuring that the campaign is on the right side of the law.
- (vi) **Exercise Caution with Intellectual Property:** Before including a competitor's name, brand or product (either directly or indirectly) in any advertising, careful consideration must be given to the possible trade-mark, copyright and tort implications.
- (vii) **Have a Game Plan:** Prior to executing a comparative advertising campaign, ensure you have in place a clear game plan for defending against potential challenges. This plan should include careful record management and the establishment of a crisis management team. This game plan should also include setting aside a portion of the campaign's budget to defend against competitors who challenge the campaign.

(e) **Some Basic Rules of Thumb in Responding to an Unfair Comparative Advertising Campaign**

- (i) **Watch the Competition Closely:** Be sure to know what your competitors are doing. This ensures a timely response is taken to unfair comparative claims.
- (ii) **Cease and Desist:** Time is of the essence and when a company's products or services are the subject of a false or misleading comparative claim you should move quickly in sending a cease and

desist letter to the offending advertiser. When drafting this letter, care must be taken not to offend the extortion provisions in the Criminal Code or the rule against threatening criminal proceedings in applicable law society rules of professional conduct.³⁵ You should give the offending advertiser a short time to respond and be prepared to follow through when the reply is “drop dead”.

- (iii) **Request Claim Substantiation:** Although parties are not obliged to provide this information, requesting it reminds the competition that you know they’d better have their support in place and may give them pause to consider again how confident they are that their claims are lawful.
- (iv) **Know the Law:** By understanding all of the potential venues that may exist for a challenge, an advertiser is better equipped to understand when and how a successful challenge can be launched.

UNITED STATES

While a detailed overview of the US’s comparative advertising legal regime is beyond the scope of this paper, advertisers must appreciate that any North American-wide campaign requires compliance with both Canadian US law. This point, however trite, is

³⁵ Section 346 of the Criminal Code provides that “(1) Every one commits extortion who, without reasonable justification or excuse and with intent to obtain anything, by threats, accusations, menaces or violence induces or attempts to induce any person, whether or not he is the person threatened, accused or menaced or to whom violence is shown, to do anything or cause anything to be done. (2) A threat to institute civil proceedings is not a threat for the purpose of this Section.” As to provincial law society rules, 2.02(4) of the Law Society of Upper Canada’s Rules of Professional Conduct provides “A lawyer shall not advise, threaten, or bring criminal or quasi-criminal prosecution in order to secure a civil advantage for the client.”

sometimes lost. Generally speaking, the US has a similar framework for regulating comparative advertising. The Federal Trade Commission regulates trade, including comparative advertising. The Federal Trade Commission Act declares unfair or deceptive acts or practices in or affecting commerce to be unlawful.³⁶ Additionally, the Lanham Act provides a civil cause of action to any person who is or is likely to be damaged by another's false or misleading descriptions or representations of facts.³⁷ Beyond the legal framework, there is also a self-regulatory body, the National Advertising Division (NAD) of the Council of Better Business Bureaus. Similar to ASC, both consumer and competitor complaints may be reviewed and decided by NAD. Again, while there are similarities between the Canadian and US regimes, prudence dictates that advertisers consult US counsel on US law.

CONCLUSION

Comparative advertising helps companies highlight the competitive advantage of their products or services and thus helps consumers make informed choices. It offers significant potential rewards in the form of increased sales and marketshare. Because of these potential rewards, however, comparative advertising campaigns are subject to intense scrutiny by competitors and are often the subject of legal challenges. Understanding the legal, regulatory and self-regulatory regimes that governs comparative advertising is therefore critical for a successful campaign. By better understanding these regimes, advertisers are more likely to prevail in the face of challenges. As well, advertisers are better equipped to defend their own products and corporate goodwill against unfair or unsubstantiated attacks.

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³⁶ Federal Trade Commission Act, 15 U.S.C. at § 45 (1914).

³⁷ Lanham Act, 15 U.S.C. at § 1125.