

OUTSIDE PERSPECTIVES

Dare To Compare

Trade-mark Use In Comparative Advertising – A Canadian Perspective

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Background

An in-house counsel is constantly having to present to his or her company the “risk-benefit” analysis on various courses of action the company wishes to take. One area where this is sometimes particularly difficult is the area of comparative advertising.

Your marketing department has come up with some great packaging, or a cool print ad, that sets out why your company’s product is much better than the competitor’s, and they have identified the competitor’s product by name! What is worse, this ad is going to run in Canada as well as the United States. You may be very familiar with section 43 of the *Trademark Act of 1946 (Lanham Act)* but what laws apply in Canada?

There are a few Canadian laws that could apply if the statements made in the ad are false or misleading:

1. The Canadian *Competition Act* restricts false or misleading advertising and provides both civil and criminal penalties.
2. There are common law actions that can be brought if false statements that cause economic loss are intentionally made.
3. Section 7(a) of the Canadian

Trade-marks Act prohibits anyone from making false or misleading statements that tend to discredit a competitor.

But what if the information in the ad is all true? Can it be allowed to run in Canada? Section 22 of the *Trade-marks Act* provides guidance on this issue.

Section 22 of the Trade-marks Act

This section of the Trade-marks Act was enacted in 1953 and was supposed to be based on the anti-dilution laws that were already in place in the United States. However, whereas the United States laws allow the use of a competitor’s trade-mark for the purposes of comparative advertising (Australia and Britain follow the same approach), Canada’s laws have evolved such that the use of a competitor’s mark in comparative advertising will often be prohibited, even if the comparison is factually accurate.

Section 22(1) of the Trade-marks Act is commonly utilized in comparative advertising actions and states “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”.

What your Competitor must prove

The courts have determined that there are three critical elements to demonstrate if one is going to be successful in an action under section 22. They are as follows:

1. There must be a registered trade-mark.
2. That trade-mark must be used by a competitor.
3. The use must have the effect of depreciating the value of the goodwill associated with the trade-mark.

The first element is self-explanatory. The other two have been the subject of much debate and will be discussed below.

“Use” of the trade-mark

After showing the existence of a registered trade-mark, the injured party must show that its mark is being “used” as required by section 22. The leading case on section 22 is *Clairol International Corp. v. Thomas Supply & Equipment Co.* (1968), 55 C.P.R. 176 (Ex. Ct.). This case determined that such use must be in accordance with the deemed use provisions of section 40 of the *Trade-marks Act*.

The *Clairol* case involved the use of the Clairol trade-mark on packages of Revlon hair color and in brochures contained inside the packages, as part of a color comparison chart. The court

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found that the use of the Clairol trade-mark on the charts printed on the packages of hair color was "use" of a trade-mark within the meaning of the Trade-marks Act, whereas the use on the brochure was not trade-mark "use" since the mark was not visible prior to the purchase of the product.

As a result of the heavy reliance in *Clairol* on the technical statutory definition of "use", the use of a competitor's service mark has become very restricted as the definition of "use" of a mark in connection with services includes displaying the mark in advertising. This ostensibly catches all comparative ads dealing with service marks.

Depreciating the value of the goodwill

If the requisite "use" of the mark has been shown, the injured party must then satisfy the court that the use has had the effect of depreciating the value of the goodwill associated with the mark.

In *Clairol*, the court found that the value of the goodwill could be depreciated through "reduction of the esteem in which the mark itself is held or through the direct persuasion and enticing of customers who could otherwise be expected to buy or continue to buy goods bearing the trade mark."

On the face of it, this interpretation of depreciating the value of goodwill would catch almost any form of comparative advertising since the very purpose of advertising is to increase one's market

share and entice your competitor's customers away. *Clairol* has been criticized both for this and for the arbitrary definition of "use" that it espoused.

Subsequent cases have demonstrated that the courts are ready to narrow the interpretation of section 22 to allow more comparative advertising. For instance, in *Future Shop Ltd. v. A. & B. Sound Ltd.* (1994) 55 C.P.R. (3d) 182, where the defendant used the trade-mark FUTURE SHOP in ads showing that the defendant's electronic goods were cheaper, the court found that using a competitor's trade-mark for the purpose of stressing the similarities in the products offended the provisions of section 22, but if one were merely referring to the competitor's mark to stress the *differences*, then there was no appropriation of the goodwill associated with the trade-mark and section 22 would not apply.

Also, in *British Columbia Automobile Assn. v. O.P.E.I.U., Local 378* (2001) 10 C.P.R. (4th) 423, where a union was using a company logo in an advertising campaign designed to increase membership in the union, the courts stated that depreciation of goodwill would not occur if the use being made of the competitor's trade-mark would be unlikely to have any negative commercial ramifications on the competitor, either because the ad was not reaching a sufficiently large pool of potential consumers to have any commercial effect, or because the message in the ad was unlikely to have the effect of

decreasing business.

Practice Tips

1. Do not use your competitor's trade-mark, or a confusingly similar one, in the ad at all. This will take you out of the realm of section 22.

2. Do not print the competitor's mark on your packages or other material that is clearly visible at the point of purchase of the product. (You can use it on non point of purchase brochures and flyers, as well as on television, but be careful about use on the internet if one can also make purchases online, as that may be considered "point of purchase" use.)

3. Avoid any reference to your competitor's trade-mark in comparative advertising when its mark is a service mark.

4. If using a competitor's trade-mark in comparative advertising, try to have the ad focus on the differences between the products/services rather than the similarities.

5. Keep comparative ads fair and accurate.

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