



Trade-mark Law

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Supreme Court of Canada sets the record straight in Masterpiece Inc. v. Alavida Lifestyles Inc.

The long wait by the intellectual property law bar for clarification on some fundamental aspects of trade-mark law has finally come to an end. The intellectual property bar had been confused by a ruling in the field of trade-mark law by the Federal Court, which ruling the Federal Court of Appeal upheld.

In a unanimous decision, the SCC overturned the decisions of the Federal Court and Federal Court of Appeal in *Masterpiece Inc. v. Alavida Lifestyles Inc.* dated May 26, 2012. The SCC found several errors with the judgments of the lower courts. In the SCC decision, it ruled on: (i) how geographic use of trade-marks affects their rights; (ii) how a confusion analysis is conducted between registered and unregistered trade-marks; (iii) how the nature of the wares and services affects a confusion analysis; and (iv) how evidence should be used in respect of trade-mark litigation matters.

The Facts

Masterpiece Inc. was incorporated in 2001. Masterpiece operates in the retirement residence industry. From

2001 until 2005, Masterpiece used its corporate name Masterpiece Inc. as a trade-name in Alberta on materials such as prospectuses, contracts, and advertisements. Masterpiece Inc. also used several unregistered (common-law) trade-marks such as “Masterpiece the Art of Living” and “Masterpiece the Art of Retirement Living”, and a stylized “Masterpiece” with a butterfly logo.

Alavida also operates in the retirement residence industry. Alavida Lifestyles Inc. was incorporated on August 4, 2005. Alavida applied for the trade-mark “Masterpiece Living” in association with retirement residence services on December 1, 2005, and it was registered on March 23, 2007. Alavida has used “Masterpiece Living” as its trade-mark since January 2006, in Ontario.

In January 2006, Masterpiece Inc. filed a trade-mark application for “Masterpiece” and in June 2006 filed a trade-mark application for “Masterpiece Living”. The Trade-marks Office denied both trade-mark applications for the reason that the applications were confusing with Alavida’s trade-mark for “Masterpiece Living”.

Masterpiece Inc. applied to the Federal Court to expunge Alavida’s

registration on March 16, 2007.

The Judgment of the Federal Court

The Federal court dismissed Masterpiece Inc.’s application to expunge the Alavida trade-mark.

The trial judge ruled that if Alavida’s registered trade-mark was confusingly similar to any trade-marks or trade-names that had been used before Alavida filed its trade-mark application, then Alavida would not be entitled to the trade-mark registration and it would be expunged.

After examining Alavida’s registered trade-mark against Masterpiece’s use of its corporate and trade names, the trial judge ruled that there would be no likelihood of confusion as a result of the simultaneous use of the trade-marks in the marketplace.

The trial judge based his reasoning on the fact that: (i) Masterpiece Inc.’s use of its trade-marks was sporadic; (ii) Masterpiece Inc.’s trade-marks had no acquired distinctiveness through use; (iii) Alavida’s post registration use of its trade-mark differed from Masterpiece Inc.’s use of its marks both in design and in the focus of the advertisements; even though

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the trade-marks used by both parties had “obviously a degree of resemblance”, the differences in use served to reduce the likelihood of confusion; and (iv) as the choice of a retirement residence was an important and expensive decision, consumers would research their decisions carefully, reducing the likelihood of confusion.

The Judgment of the Federal Court of Appeal

A unanimous Federal Court of Appeal dismissed the appeal of Masterpiece Inc. and upheld the findings of the trial judge. The FCA agreed with the trial judge’s approach to the confusion analysis.

The SCC Judgment

Masterpiece Inc. appealed the decision of the FC and FCA to the SCC. There were four relevant grounds of appeal. I will state each ground and how the SCC addressed them.

Ground 1: Does the location of use of a mark matter when considering the likelihood of confusion between a trade-mark application or trade-mark registration and a prior unregistered trade-mark or trade name?

The SCC ruled that the test for confusion in the *Trade-marks Act* is based upon the hypothetical assumption that both trade-names and trade-marks are used “in the same area”, regardless of whether that is actually the case. Therefore, geographical separation in the use of otherwise confusingly similar trade-names and trade-marks, in this case in Alberta and Ontario, is immaterial in the hypothetical case.

This is supported by the fact the sec-

tion 19 of the *Trade-marks Act* gives the owner of a registered trade-mark the exclusive right to use the trade-mark across the country. In order for the owner of a registered trade-mark to have exclusive use of the trade-mark throughout Canada, there cannot be a likelihood of confusion with another trade-mark anywhere in the country.

The hypothetical test reflects the legislative intent to provide a national scope of protection for registered trade-marks.

Ground 2: When considering resemblance between a proposed use trade-mark and an existing unregistered trade-mark, what considerations are applicable?

In the interests of clarification, the court commented on seven matters which must be examined when assessing the resemblance between a proposed use trade-mark and existing unregistered trade-marks as follows.

One: Trade-mark registration is only available once the right to the trade-mark has been established by use.

Two: When assessing confusion of trade-marks, one should not conduct a careful examination of competing marks or a side by side comparison.

Three: one must examine every similar trade-mark or trade name when making a determination concerning confusion under section 16(3) of the *Trade-marks Act*.

Four: when considering resemblance of trade-marks and trade names to one another, the confusion analysis should start with a consideration of

the resemblance of the trade-marks.

Five: when assessing the likelihood of confusion, actual use of the trade-mark or trade name should not be considered to the exclusion of potential uses arising as result of the registration.

Six: when determining entitlement to a trade-mark or trade name under section 16(3) of the *Trade-marks Act*, a party opposing or challenging a trade-mark application may only rely on those trade-marks it had actually used and the trade names under which it had been carrying on business prior to the filing date of the opposed or challenged trade-mark application.

Seven: when determining resemblance between trade-marks and trade names, the first word is important in respect of distinctiveness and one should consider whether there is an aspect of the trade-mark or trade name which is particularly unique.

Ground 3: What effect does the nature and cost of the wares or services have on the confusion analysis when considering “nature of the trade” under s. 6(5) of the *Trade-marks Act*?

The SCC stated that it had affirmed that consumers in the market for expensive goods may be less likely to be confused when they encounter a trade-mark, but the test is still one of “first impression”. The care or attention one gives to a costly or an important purchase must relate to the attitude of the consumer and not to the research or inquiries or care that may be subsequently taken after encountering the trade-mark.

The SCC ruled that there may be a lesser likelihood of trade-mark confusion when considering the nature of wares, services, or business, where consumers are in the market for expensive or important wares or services. The reduced likelihood of confusion is still premised on the first impression of consumers when they encounter the marks in question.

While subsequent research or consequent purchase may dispel a consumer of confusion between trade-marks or trade names, such occurs after the consumer may have already been confused and therefore is irrelevant when determining likelihood of confusion. It is the confusion that consumers have when they encounter the trade-marks or trade names which is relevant.

The lower courts erred when they discounted the likelihood of confusion by considering what actions the consumer might take after encountering a mark in the marketplace.

Ground 4: When should courts take into account expert evidence in trade-mark or trade-name confusion cases?

The SCC ruled that expert evidence which simply assesses the resemblance between trade-marks and trade names will not generally be necessary. An expert should not be permitted to testify if their testimony is not likely to be outside the experience and knowledge of a judge. Where the market for a particular good is a specialized market, evidence about the special knowledge or sophistication of the targeted consumers may be essential to determining when confusion would be likely to arise. However, where goods are sold to the

general public for ordinary use, judges may assess the likelihood of confusion by giving effect to their own opinions as to likelihood of deception or confusion.

As Masterpiece Inc. had not established a presence in the community in which it operated, there were no casual or average consumers with “imperfect recollection” of Masterpiece Inc.’s marks to test. Therefore, any survey which attempted to simulate “imperfect recollection” through a series of lead-up questions to consumers will rarely be seen as reliable and valid.

Ruling of the SCC: Confusion Analysis between Masterpiece Inc.’s unregistered trade-marks and Alavida’s registered trade-mark

The SCC concluded that there is a strong resemblance between Masterpiece Inc.’s unregistered trade-mark “Masterpiece the Art of Living” and Alavida’s registered trade-mark “Masterpiece Living”. A casual consumer observing the Alavida trade-mark and having no more than an imperfect recollection of Masterpiece Inc.’s trade-mark would likely be confused into thinking that the source of the services associated with the trade-mark was the same.

Further, even a consumer in the market for relatively expensive retirement residence accommodation would believe that the ideas conveyed by both trade-marks are the same. Also, looking at the marks as a whole and the dominant word “Masterpiece” in particular, there is little to dispel the consumer from thinking that the source of the marks was the same.

The services description in Alavida’s registered trade-mark gives it the right to use the trade-mark in association with services in the exact same market as that serviced by Masterpiece Inc. Although Alavida stated that it would use its trade-mark with “up-market” services, the court notes that nothing in the registration limits Alavida to the “up-market”. After considering the nature of the services, the SCC ruled that such nature enhanced the likelihood of confusion between the marks for the casual consumer. Moreover, the SCC stated that the trial judge should have taken into consideration under section 6(5) the fact that the Register of Trade-marks found the Masterpiece Inc. trade-marks confusing with Alavida’s trade-mark registrations in direct opposition to the trial judge’s conclusion.

As a result, the SCC ruled that Masterpiece Inc. has proven that use of Alavida’s trade-mark in the same area as Masterpiece Inc.’s trade-marks would likely lead to the inference that the services associated with Masterpiece Inc.’s trade-marks were being performed by Alavida. The SCC ordered Alavida’s registered trade-mark expunged from the Register. ■

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