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Q245

Taking unfair advantage of trademarks: parasitism and free riding

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I. Current law and practice

1) Do the laws of your jurisdiction provide for protection against:

a) the taking of unfair advantage of trademarks as defined in these Working Guidelines (see paragraphs 26) and 27) above); and/or

no

Please comment:

b) use that you consider similar but outside the scope of the definition in these Working Guidelines?

yes

Please comment:

Paragraph 27 of the Working Guidelines talks about the unfair advantage of trademarks, referred to as "free riding" or "parasitism".

Statement "b" applies to Canada. While there is no explicit protection against "free riding" or "parasitism" (as there is in France), except specifically for the territory of the province of Quebec, the prohibition against "depreciation of goodwill" provided for in the Canadian *Trade-marks Act* (RSC 1985, c. T-4) appears to provide protection that is most analogous to the definition provided in paragraph 27 of these Guidelines.

More specifically for the province of Quebec, the Civil Code of Quebec (C.C.Q.), which is a Napoleonic type of code, governs private law. Under section 1457 C.C.Q., which is the general extra-

contractual liability regime, the jurisprudence has recognized protection against “passing-off” and unfair competition. Even though little jurisprudence has examined the specific question of parasitism, the Court of Appeal of Quebec has recognized in a recent decision¹⁴ that a certain form of parasitism, as developed in France under the name “concurrence parasitaire” could be sanctioned by the general regime of section 1457 C.C.Q., which is broad enough to encompass such actions.

Section 20 of the *Trade-marks Act* also contains some subsections prohibiting use of confusing trade-marks, but also others prohibiting the selling or distributing (amongst other things) of labels or packaging bearing a trade-mark where the person knows or ought to know they will be used with goods and services not of the owner of the registered trade-mark.

Footnotes

1. ¹⁴ *Groupe Pages Jaunes Cie c. 4143868 Canada inc.*, 2011 QCCA 960.

For the questions below, if b. applies either separately or in addition to a., please make that clear in any relevant answer.

- 2) What is this protection called, and is this a definition developed in case law or found in a statutory provision? If such protection is characterised as a form of protection against dilution, please state this and provide any explanation as to the basis for such characterisation.

Section 22 of the Trade-marks Act is entitled “Depreciation of goodwill”, and is a right given to anyone who holds a registered Canadian trade-mark.

It is statutory, but based on common law. Section 22 of the *Trade-marks Act* reads:

Depreciation of goodwill

22. (1) 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.

“Goodwill” has been defined in Canadian common law as “the value to the extent of the advantage of the reputation and connection which its owner enjoys”. Similarly, “goodwill” in relation to trade-marks has been interpreted to mean “that portion of the goodwill of the business of its owner which consists of the whole advantage, whatever it may be, of the reputation and connection, which may have been built up by years of honest work or gained by lavish expenditure of money and which is identified with the goods distributed by the owner in association with the trade mark”¹⁵

“Depreciation” of that value may occur through the 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.

Additionally, for those whose trade-marks are not registered, they may have recourse to the common law tort of “passing off”, which occurs when a trader misrepresents his or her own wares as those of another (the plaintiff), and causes the plaintiff damage. The plaintiff may sue for those damages. As stated by the Supreme Court of Canada:

¶ 33 The three necessary components of a passing-off action are thus: the existence of goodwill, deception of the public due to a misrepresentation and actual or potential damage to the plaintiff.

Ciba-Geigy Canada Ltd. (1992) 44 CPR (3d) 289 (SCC) cited in *Kirkbi* SCC

Relevant to this question, the tort of passing off has been found in past Canadian jurisprudence not only

to exist when goods are passed off as others' goods, but also, in an "extended" form, even indirect misrepresentations that a trade's goods have some connection to the plaintiff may be actionable. This extended form arises, for example:

...[where] a defendant has promoted his product or business in such a way as to create the false impression that his product or business is in some way approved, authorized or endorsed by the plaintiff or that there is some business connection between the defendant and the plaintiff. By these means a defendant may hope to "cash in" on the goodwill of the plaintiff.

While the tort of passing off originated at common law, it has also been codified in section 7(b) of the trade-marks Act, which reads:

Prohibitions

7. No person shall

(a) make a false or misleading statement tending to discredit the business, goods or services of a competitor;

(b) direct public attention to his goods, services or business in such a way as to cause or be likely to cause confusion in Canada, at the time he commenced so to direct attention to them, between his goods, services or business and the goods, services or business of another;

(c) pass off other goods or services as and for those ordered or requested; or

(d) make use, in association with goods or services, of any description that is false in a material respect and likely to mislead the public as to

(i) the character, quality, quantity or composition,

(ii) the geographical origin, or

(iii) the mode of the manufacture, production or performance of the goods or services.

Footnotes

1. [↑](#) *Clairol*, Justice Thurlow at page 573.

3) If such protection is available, what is the basis for the protection, e.g. trademark law (distinguishing between unregistered and registered trademarks where relevant), unfair competition, consumer protection law, common law? If multiple causes of action are available, is there an interaction between them, and if so, what?

The basis for the Depreciation of Goodwill and Passing off in Canada exist in the Trade-marks Act (as indicated above) and distinguishes between registered, unregistered trade-marks as well as issues of unfair competition.

Canadian law protects depreciation of goodwill and passing off (the most closely related Canadian equivalents to parasitism and "free riding" claims) through trade-mark law. Narrower protections exist under:

- consumer protection laws, for example those that protect against misrepresentations in the context of purchasing franchised businesses, and,

- competition law claims, such as section 52 of the Competition Act, which forbids misleading

advertising. However, these claims may largely mirror Canadian passing off claims and if the latter cannot be proven, there is some jurisprudence that has held that section 52 claims will not be made out.

... if not a misrepresentation because not likely to deceive the public as required to meet the test for passing off, then they do not constitute representation to the public that is false or misleading in a material respect and do not breach s. 52 Competition Act.

2012 BCSC 608, finding that at least in this case, s. 52 not made out when passing off not made out.

Depreciation of Goodwill

The basis for Depreciation of Goodwill is found both in statute and common law.

Pursuant to section 22 of the Canadian *Trade-marks Act*, the court has a discretionary power to grant relief in cases where a person uses a trade mark registered by another person in a manner likely to have the effect of depreciating the value of the goodwill attached to it.

This statutory protection has been further expanded in the following cases:

- ***Clairol International Corporation v Thomas Supply & Equipment Company Limited, [1968] 2 Ex CR 552.*** In this case, the Court stated that goodwill can be depreciated through “reduction of the esteem in which the mark itself is held or through the direct persuasion and enticing in customers who could otherwise be expected to buy or continue to buy good bearing the trade mark.”
- ***Veuve Clicquot Consardin v Boutiques Cliquot Ltée, 28 CPR (4th) 520.*** In this case, the trade mark of the famous French champagne was used by a low to mid-end women’s clothing store. According to the court, s 22 of the Trade-marks Act applies even where a defendant’s wares or services do not compete with the plaintiff’s and their marks are not identical.
- ***Source Perrier v. Fira-Less Marketing Co. Limited, [1983] 2 F.C. 18.*** In this case, a political gag company sold a product that was a spoof of the well-established French brand of mineral water. Here the Court found that even “the most liberal interpretation of free expression does not allow you to depreciate the value of goodwill attached to a trademark.”

Passing Off

Similarly, for non-registered trade-mark owners, section 7(b) and 7(c) of the *Trade-Marks Act* state that no person shall direct public attention to one’s wares, services or business in such a way as to cause or be likely to cause confusion in Canada between their wares and the services of another.

The leading case on this matter is:

- ***Ciba-Geigy Canada Ltd v Apotex Inc [1992] 3 SCR 120.*** In this case, Ciba-Geigy brought an action against Apotex and Novopharm, alleging that their versions of the prescription drug metoprolol were causing confusion to the public due to their similar appearance to Ciba-Geigy’s version of the drug Lopresor. The 3-step test established by the Supreme Court is laid out below.

- 4) What are the elements of any available cause of action, e.g. the requirement for the trademark to be registered, reputation in the trademark, establishment of a link or association with the trademark, bad faith, change in the economic behaviour of consumers, actual advantage, potential future advantage? How are they proven?

Depreciation of Goodwill

There are 4 elements to claims of depreciation of goodwill:

1. The Plaintiff must show that its registered mark was used by the Defendant in connection with wares or services. It does not matter whether such wares/services are competitive with those of the Plaintiff.
1. The Plaintiff must show that its mark is sufficiently well known to have significant goodwill attached to it. Section 22 does not require the mark to be well-known or famous, but a Defendant cannot depreciate the value of the goodwill that does not exist.
1. The Plaintiff must show that its mark was used in a manner likely to have an effect on that goodwill. That is to say, there must be a linkage between the Defendant's use of the mark and the Plaintiff's goodwill. This is generally established through expert evidence focussing on marketing, psychology, and market analytics.
1. The Plaintiff must show that the likely effect of the Defendant's actions (from point 3) is the depreciation in the value of its goodwill, giving rise to damages.

Passing Off

There are 3 elements to passing off claims. The Plaintiff must show:

1. The existence of goodwill;
2. Deception of the public due to a misrepresentation; and,
3. Actual or potential harm to the Plaintiff as a result.

5) Further to question 4):

a) what degree of reputation, if any, in the trademark is required?

The mark must have "goodwill"; it does not need to be "famous" (as it does in the United States) but it must have "sufficient goodwill" such that depreciation can occur.

b) who bears the burden of proof regarding the requirements?

The Plaintiff bears the burden of proving all four elements listed above.

c) must the use at issue cause confusion?

no

Please comment:

Confusion is not required to make out a depreciation of goodwill (section 22) claim. In *Clairol*, the Court confirmed that the "test is the likelihood of depreciating the value of the goodwill attached to the trade mark" and that this could result without *actual* deception or confusion.

d) can the protection be invoked in case of both similar and dissimilar goods/services?

yes

Please comment:

The *Veuve Clicquot* decision confirms that the defendant's wares and services do not need to be the same as those of the established mark. In *Veuve Clicquot*, a famous champagne maker was suing a low- to mid-end clothing retail outlet.

e) are there any other factors, even if not a separate requirement, that may be relevant, and if so, what are they?

N/A

6) Are there any defences against and/or limitations to the protection?

yes

If so, what are they, and what are the elements of such defences/limitations?:

There are no fair use defenses *per se* but if the defendant can show that it used the mark in a way that is bona fide comparative advertising that would not be a violation of s 22, per *Clairol*. Presumably, *bona fide* comparative advertising can never depreciate the goodwill of the wares being compared.

7) Who bears the burden of proof in relation to any defences and/or limitations? In this context, please also consider the relationship with the element of "unfairness". For example, is it a defence that the use is with "due cause" (see paragraph 31 of the introduction) above and footnote 2) of the introduction? If so, can such use ever be "unfair"? Or is this just a matter of a shifted burden of proof?

The burden of proof to make out a defence or limitation of "comparative advertising" to a section 22 claim would rest with the defendant. It would have to establish on the facts that its use of the registered mark was for the purpose of comparative advertising, and not to depreciate the goodwill in the plaintiff's trade-mark.

8) If a defence exists or only limited protection is available, what rights does that give the free rider? For example, may the free rider simply use the trademark or may the third party obtain a separate trademark registration in respect of the goods and/or services in respect of which the free rider is using the trademark?

Because there is no explicit defense against depreciation of goodwill, free riders cannot be said to gain any rights. At most, they can engage in *bona fide* comparative advertising using a third party's mark.

Separately, it is possible that a third party free rider might attempt to register an existing trade-mark, but for wares and services that differ from those of the registered mark. Both the Courts and the Trade-marks Opposition Board would assess the likelihood of confusion of this mark with the original registered mark, and disallow a filing that would be likely to be confusing with the existing mark. "Confusion" in Canadian law is codified in section 6 of the Trade-marks Act (see attached copy) which enumerates a number of factors that are to be assessed to determine whether a trade-mark is confusing with another (or with a trade name). These factors include the similarities of the marks themselves, the distinctiveness of each mark, the length of time each mark has been in use, where and how the goods and services are being sold, and the intended channels of trade.

9) Can the protection be invoked in:

a) court in civil proceedings;

yes

Please comment:

Generally, trade-mark infringement, passing off, and depreciation of goodwill actions can be

instituted before either the Superior Court of a province or the Federal Court of Canada.

b) court in other proceedings;

yes

if so what other proceedings (e.g. criminal proceedings):

Canada's criminal code has explicit prohibitions against counterfeiting and forgery of trade-marks. Thus counterfeit proceedings may be pursued via criminal proceedings.

Furthermore, the *Combating Counterfeit Products Act*, came into force on January 1, 2015. This Act introduces certain provisions into Canadian law that empower Canadian customs officers to search, seize, and intercept the import or export of counterfeit goods upon request of copyright and registered trade-mark owners who make an approved "request for assistance application" (or RFA application).

c) opposition proceedings;

no

Please comment:

It appears not. Section 38(2) of the *Trade-Marks Act* reads as follows, and restricts opposition hearings to the following grounds:

(2) A statement of opposition may be based on any of the following grounds:

(a) that the application does not conform to the requirements of section 30;

(b) that the trade-mark is not registrable;

(c) that the applicant is not the person entitled to registration of the trade-mark; or

(d) that the trade-mark is not distinctive.

Generally, the Trade-marks Opposition Board hears matters pertaining to disputes over confusion and distinction. Although the issue as to whether s. 22 depreciation of goodwill can be raised in opposition proceedings has been raised in Federal Court^[1], that case simply remanded a matter back for redetermination to the Trade-marks Opposition Board and it appears no further decision on point resulted.^[2]

Footnotes

1. [^](#) See for example *Parmalat Canada Inc v Sysco Corp 2008 FC 1104 (CanLII)*, (2008), 69 CPR (4th) 349 (FC) at paras 38-42.
2. [^](#) See, for example, *Prime Restaurants Inc v Pacific Vision Proprietary Ltd, 2014 TMOB 9* noted that as of 2014, there appeared to be no decision on point.

d) any other?

no

Please comment:

10) If the protection can be invoked in multiple proceedings, are there different requirements for different proceedings? If so, please state the requirements.

Yes, the multiple proceedings are as noted above.

In terms of civil vs criminal proceedings: the burden of proof on Plaintiffs for establishing depreciation of goodwill in civil proceedings is lower than the burden on the Crown to prove criminal counterfeiting acts. The standard in civil proceedings is “on a balance of probabilities” the standard in criminal proceedings is “beyond a reasonable doubt.”

In terms of the difference between commencing proceedings in Superior Court or the Federal Court:

The Federal Court’s jurisdiction extends across all of Canada. Therefore, the Federal Court exercises its jurisdiction over all Canadian entities irrespective of where they reside, where they may have assets, or where the cause of action arose (all within Canada). The Federal Court also has jurisdiction to make changes to the Canadian Trade-mark registry, which might be of benefit in other kinds of actions not discussed herein but relevant to free riders. (For example, to expunge a registration made by a free rider over another party’s trade-mark.)

Generally speaking, a provincial Superior Court has jurisdiction over persons residing only within that province or having assets within that province. It may only issue an injunction order enjoining a defendant over which it exercises jurisdiction, although it can enjoin that party from doing something in another province. For instance, the Superior Court of Manitoba can issue an order preventing a Manitoba company from using a trade-mark in Ontario.

II Policy considerations and proposals for improvements of the current law

11) Should there be protection against:

a) the taking of unfair advantage of trademarks as defined in these Working Guidelines; and/or

yes

Why?:

Yes, protection against the taking of unfair advantage of trademarks could play an important part of any trade-mark regime.

Protection similar to U.S. dilution provisions could be considered, as these provisions provide greater protection and/or legal options to brand owners against free-riding and parasitism.

b) use that is similar but outside the scope of the definition in these Working Guidelines?

no

Why not?:

12) Is the basis for protection or the cause of action relevant?

yes

Why?:

Damages are an important consideration. Depending on which court the proceeding starts in the damages awarded will differ.

13) Should it be possible to invoke the protection in all types of proceedings mentioned above under 9) above?

no

Why not?:

There is already a difference in the extent and nature of protection afforded to owners of registered vs unregistered marks (i.e. limitations to territory and reputation). Further there are different onuses on parties depending on the nature of the proceedings. As a result, recognizing the difference in protection in each court is reasonable given the nature of each claim.

14) How can your current law as it applies to the taking of unfair advantage of trademarks and/or the interpretation thereof (in particular, in case law) be improved?

At the moment, the difference between comparative advertising and depreciation of goodwill is not well defined. Further, there are no specific provisions defining dilution and/or famous trade-marks encompassed in the current or prospective trade-mark registration. There has been limited litigation in this area to date. As a result relevant provisions in the *Trade-Marks Act* and/or further case law setting out additional guidelines could provide rights holders with greater certainty on this point.

III Proposals for harmonisation

15) Is harmonisation in this area desirable?

yes

Please comment:

If yes, please respond to the following questions without regard to your national or regional laws. Even if no, please address the following questions to the extent you consider your national or regional laws could be improved.

16) If your answer to question 11) is no in respect of a. and/or b., is it your view that no such protection should be available anywhere?

N/A

17) Should there be harmonisation of the definition of:

a) the taking of unfair advantage of trademarks as defined in these Working Guidelines; and/or

yes

If so, please provide any definition you consider to be appropriate.:

Yes, harmonisation of laws would be a desirable outcome for rights holders as it provides certainty in the law. However, it is understood that this would likely require significant time and input from stakeholders.

b) use that you consider similar but outside the scope of the definition in these Working Guidelines?

no

Please comment:

18) What should the basis for protection/cause(s) of action be?

As the United States has a clearly defined regime, the AIPPI could consider a review of that regime.

19) What should the requirements for protection be? In your answer, please address at least the following, in addition to any other relevant factors: what level of reputation, if any, in the trademark should be required, and who should bear the burden of proof?

The U.S. requirement for a famous mark would be an appropriate standard as it is clearly defined. The burden of proof should rest with the party making the claim.

20) What defences against and/or limitations to the protection should be available? Please state the proposed requirements for any defence/limitation, and the effect of any defence/limitation.

While there are no defenses available in Canada, the US has a fairly well established Fair Use regime. Following this regime would be desirable.

21) Who should bear the burden of proof in respect of any defences and/or limitations?

As in the U.S. the person seeking to raise the defense should bear the burden of proof for making out the defense.

22) In what type(s) of proceedings should it be possible to invoke the protection?

Civil proceedings would be an appropriate forum for rights holders in common law jurisdictions. This is because the standard of proof is the balance of probabilities.

Summary

Please comment on any additional issues concerning the taking advantage of trademarks in the sense of parasitism and free riding you consider relevant to this Working Question.