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Supreme Court of Canada Overturns Lower Court Decisions in *Masterpiece v. Alavida Lifestyles*

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On May 25, the Supreme Court of Canada released its decision in *Masterpiece Inc. v. Alavida Lifestyles Inc.*, confirming that Canada's trademark regime is based on first-to-use rather than first-to-file principles.

Background

In 2005, Alavida Lifestyles Inc., an operator of retirement residences, applied to register the trademark MASTERPIECE LIVING in Canada on the basis of proposed use. The mark was subsequently registered in 2007. After the registration, Masterpiece Inc., also an operator of retirement residences, sought to expunge the registration on the basis that it was confusing with its unregistered trademark MASTERPIECE (and other MASTERPIECE-related marks) which had been in use since 2001. Masterpiece operated in Alberta, while Alavida operated in Ontario.

In the Federal Court, both the Trial Court and the Court of Appeal rejected Masterpiece's claim on the basis that there was no likelihood of confusion because Alavida's and Masterpiece's respective trademarks were not being used in the same geographic locales. The courts also found that Masterpiece's trademarks, taken as a whole, were sufficiently different from MASTERPIECE LIVING to prevent confusion and that Alavida's actual use of its mark would not cause confusion with Masterpiece's mark. Furthermore, because the services offered in association with the marks were expensive, consumers would pay careful attention and distinguish between the trademarks when making purchasing decisions.

By granting Alavida the exclusive right to use its mark on a national basis, despite the prior common law rights held by Masterpiece, the courts arguably rendered Canada's trademark regime a first-to-file, not a first-to-use, regime.

The Supreme Court Decision

In deciding that Alavida's mark should be expunged, the Supreme Court held that because an owner of a trademark registration has the exclusive right to use that trademark anywhere in Canada, the location where the marks are actually used is irrelevant. This was based on the wording of the *Trade-marks Act* itself, which indicates that the test for confusion is based on *hypothetical*, not actual, use in the same geographic area. Further, the Court found that the assessment of confusion should not be based on a single composite analysis comparing all of Masterpiece's unregistered trademarks and trade names, generally, to MASTERPIECE LIVING (Alavida's registered mark). Rather, each of Masterpiece's marks should have been separately compared. The Court also confirmed that an assessment of confusion must

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be based on the entire scope of exclusive rights and potential uses granted by the trademark registration, not the actual use of the trademark.

The Court dealt with the issue of the relative cost of the goods or services offered under the competing marks as a consideration in determining confusion. While the Court acknowledged that costly services might lead to greater care in making a selection, and therefore less confusion, it limited the power of this often-used argument stating: “Confusion must instead be assessed from the perspective of the first impression of the consumer approaching a costly purchase when he or she encounters the trade-mark. The possibility that careful research could later remedy confusion does not mean that no confusion ever existed or that it would not continue to exist in the minds of consumers who did not carry out that research.” The proper test is how the casual consumer with imperfect recollection would react upon encountering a mark in the marketplace.

Finally, the Court made some comments about the use of survey evidence to demonstrate confusion, tacitly criticizing the extent to which this evidence has become nearly mandatory in trademark litigation. The Court held that in many cases, a survey is not necessary to assist the trier of fact in determining whether confusion exists, and should not be admitted.

What This Means for Trademark Owners

This decision confirms the benefits of conducting careful searches for unregistered trademarks before filing a trademark application or commencing use of a mark, since it is clear that prior use of an unregistered mark will be grounds for opposing or expunging the registration of a confusing mark. For owners of unregistered marks, this decision provides some comfort that Canada is still a first-to-use jurisdiction.

The Court’s remarks on survey evidence have a beneficial effect on trademark owners. Although enforcement of marks can still be an expensive proposition, the Supreme Court is clearly trying to cut down on the burden of enforcement costs by eliminating one of the significant expenses associated with taking a trademark case to trial. **1**