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Blaney McMurtry
BARRISTERS & SOLICITORS LLP

Blaneys on Business

"Comparative advertising is a common and effective marketing strategy, but it has a number of legal pitfalls of which companies must be aware, and beware."

This newsletter is designed to bring news of changes to the law, new law, interesting deals and other matters of interest to our commercial clients and friends. We hope you will find it interesting, and welcome your comments.

Feel free to contact any of the lawyers who wrote or are quoted in these articles for more information, or call the head of our Corporate/Commercial Group, Stanley Kugelmass at 416.593.3943 or skugelmass@blaney.com.

COMPARATIVE ADVERTISING GUIDELINES EMERGING FROM RECENT DECISIONS

James W. Carson

A clearer picture of what is legal in Canada, and what is not, when a company explicitly compares its goods and services in an advertisement to those of a competitor, is emerging from recent decisions of the Supreme Court of Canada and the European Court of Justice (ECJ).

As a result, if you are considering developing a comparative advertising campaign, or otherwise using another company's registered trade-mark in your own advertising:

1. Do not use another company's logo or artwork.
2. Do not use another company's trade-mark (registered or otherwise) on your products or packaging.
3. Do not use another company's trade-mark (registered or otherwise) in advertising your services. Consider a generic reference as opposed to a specific one. (In advertising automobile repairs, to take one example, do not refer to a specific brand of automobile but use the generic expressions "foreign imports" and "domestic makes.")
4. Make sure that any comparison that your advertising makes with another company's product or service is a fair and factual comparison of similar properties, features, ingredients, benefits or products. In addition, you are required to have support for the claims being made.
5. Do not discredit or disparage another company's product or service.
6. Present testimonials as individual opinions (vs. incontestable facts).

Background

Comparative advertising is a common and effective marketing strategy, but it has a number of legal pitfalls of which companies must be aware, and beware.

In a recent European Court of Justice (ECJ) case, *L'Oreal v. Bellure*[1], brand owner L'Oreal, a manufacturer of fine fragrances, objected to a company distributing imitations of its fragrances and identifying the corresponding L'Oreal fragrance in its comparative advertising. L'Oreal argued that the imitation fragrance manufacturer was "taking an unfair advantage" of the reputation of L'Oreal's brand. The ECJ held that advertising a product as an imitation of the well known L'Oreal branded product was unlawful.

"In Canada, a starting point for determining if a comparative advertising campaign is lawful is the The Canadian Code of Advertising Standards."

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Jim is both a registered Patent Agent and registered Trade-Mark Agent in Canada and, a registered U.S. Patent and Trademark agent. He is a member of the Intellectual Property Institute of Canada, the Intellectual Property Section of the Canadian Bar Association and the International Trademark Association (INTA).

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In Canada, a starting point for determining if a comparative advertising campaign is lawful is the *The Canadian Code of Advertising Standards*. It contains 14 clauses that set the criteria for acceptable comparative advertising that is truthful, fair and accurate. The accompanying "Guidelines for the Use of Comparative Adverting," provide a further explanation of what the Code is intended to cover.

On the question of referring to another company's trade-mark in comparative adverting, section 22 of the Trade-Marks Act states 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." This may apply regardless of whether the registered trade-mark referred to belongs to a competitor or a non-competitor.

When looking at the application of Section 22, the landmark Canadian decision in *Clairol v. Thomas Supply & Equipment Co.* is commonly cited. In that case, the Court held that "use" in comparative advertising of a competitor's trade-mark registered for products was objectionable under section 22 only if it was used on the product being advertised, on the packaging for that product, or otherwise in association with the products at the time of sale. Use in advertising alone was insufficient. (In comparative advertising, there can be no use of a competitor's trade-mark registered for services, as opposed to products.)

Recently, the Supreme Court of Canada, in the *Veuve Clicquot* decision, re-affirmed the finding in the *Clairol* case regarding the "use" of a another company's registered trade-mark in comparative advertising for products (as opposed to services).

Not unlike the European Court of Justice decision, the second element the Supreme Court looked at under section 22 was the goodwill associated with the competitor's registered trade-mark.

In the *Veuve Clicquot* case, the Supreme Court held that "while 'fame' is not a requirement of s.22, a court required to determine the existence of goodwill capable of depreciation by a 'non-confusing' use (as here) will want to take" the question of 'fame' "into consideration, as well as more general factors such as:

- the degree of recognition of the mark within the relevant universe of consumers;
- the volume of sales and the depth of market penetration of products associated with the claimant's mark;
- the extent and duration of advertising and publicity accorded the claimant's mark;
- the geographic reach of the claimant's mark and its degree of inherent or acquired distinctiveness;
- whether products associated with the claimant's mark are confined to a narrow or specialized channel of trade, or move in multiple channels; and
- the extent to which the mark is identified with a particular quality."

Even though another business's registered trade-mark is used in comparative advertising, it is not objectionable if the use in the comparative ad is

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"not likely to depreciate the goodwill" associated with the competitor's registered trade-mark. (The word "depreciate" is used in its ordinary dictionary meaning of "lower the value of" as well as to "disparage, belittle, underrate").

While disparagement is a possible source of depreciation, the value can be lowered in other ways, such as:

- when a mark is bandied about by different users;
- when there is a "blurring" of the brand image, or its positive associations, evoked by the trade-mark, or when there is a "whittling away" of the trade-mark's power to distinguish the products; and
- when there is an erosion of the public's capacity to identify the mark uniquely with the competitor's business, thus diminishing the mark's distinctiveness, uniqueness, effectiveness and prestigious connotations.

Disparagement or tarnishing of the trade-mark can arise where the comparative ad creates negative associations for the registered mark.

Canadian courts have recognized that the limits of what is covered under section 22 have not yet been fully explored by them. *Blaneys on Business* will keep clients and other readers advised as the case law evolves. In the meantime, given the continuing legal nuance inherent in comparative advertising, clients who are considering comparative advertising campaigns are encouraged to involve Blaney McMurtry's intellectual property practice early on in the process. ■

[1] *L'oreal et al. v. Bellure et al.,* [2009] EUECJ C-487/07_O.

COURT RULING SUGGESTS *SELLER* WAS ADVISED TO BEWARE

Steven P. Jeffery

Seller beware?

In certain circumstances, it would appear, the answer may well be yes.

As the recent Ontario Superior Court decision in Kipfinch Developments Ltd. v. Westwood Mall (Mississauga) Ltd. demonstrates, a seller of real property can be assessed major damages for failing to live up to its commitment, under an agreement of purchase and sale (APS), to co-operate with a buyer in its conduct of due diligence.

In Kipfinch vs. Westwood, the default occurred during the due diligence period and resulted in Kipfinch (the buyer) not waiving its due diligence condition. Notwithstanding that the agreement never went "firm", significant damages were assessed against Westwood (the seller).

The lesson that flows from this decision, which is under appeal, is that sellers are advised to act as reasonably as possible during due diligence and to be very careful about denying buyers cooperation (if cooperation is somehow mandated under the APS, as is usually the case).

Most vendors would not worry too much about being sued under an agreement that has not even gone "firm." As the court's decision shows, however, a vendor who is found to be unreasonable can end up years later with a big bill for both damages and legal costs.

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In this particular case, Kipfinch, as purchaser, entered into an APS with Westwood, as vendor, in April of 2004 for a shopping mall in Mississauga. The purchase price was $25.5 million. The sale was on an 'as is, where is' basis.

The APS contained the usual condition in favour of the purchaser, giving it 60 days to do its due diligence with respect to the property and to terminate the APS if it was not satisfied with such due diligence.

The APS also contained a fairly standard clause allowing the purchaser "to carry out such reasonable tests and inspections… as the purchaser … may deem necessary, provided that such inspection shall not unduly interfere… with the use, operation and enjoyment by the Tenants of their leased premises". In addition, any invasive or intrusive testing or inspections were to be subject to the vendor's prior written consent, not to be unreasonably withheld.

The vendor was aware of potential environmental issues at the property and had already commissioned an environmental engineering firm to conduct various studies of the property. Copies of these studies were provided to potential purchasers. The vendor hoped that by doing this the purchaser would not require any further environmental testing of the property.

One potential contamination issue at the mall was the past use of one of the units as a dry cleaning facility. The investigations conducted by the vendor's environmental engineer included drilling two ground water monitoring wells and analyzing the samples obtained. These samples revealed that Ontario Ministry of the Environment limits for dry cleaning solvents had been exceeded.

After these initial investigations, the vendor had its engineer drill (a) three new bore holes and ground water monitoring wells exterior to the building in the vicinity of the former dry cleaner and (b) one bore hole and ground water monitoring well inside the unit in question. This inside monitoring well was only drilled to a depth of 2.3 metres and did not encounter the water table at this depth. It was therefore unable to confirm any contamination.

The reports prepared by the vendor's engineer set out four remedial options, one of which was the engineer's recommended option, and involved a site specific risk assessment (SSRA). An SSRA involves a further assessment of the risks associated with the contaminants at the site and includes selective remediation or risk management practices and procedures. It was agreed that any SSRA in this case that would have been presented to the Ministry of the Environment would have required further drilling of bore holes at the site.

After the signing of the APS, the purchaser indicated that it wished to do further environmental due diligence. (It was apparently a condition of the purchaser's financing that the contamination be remediated.)

Initially, the purchaser retained the same engineer that the vendor had been using. That engineer proposed that additional interior bore holes be drilled. The purchaser also obtained a proposal from another environmental engineer (who was acceptable to the purchaser's lender). This new

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engineer agreed that an SSRA would be the most effective approach to deal with the contamination in question and also proposed a new four bore hole drilling program. The vendor objected, stating that any drilling of new wells inside the unit in question would be too disruptive to the tenant.

Since the vendor would not allow any further testing, the APS terminated automatically because the due diligence condition was not waived by the purchaser.

Kipfinch began its action several months later after negotiations with Westwood in an effort to revive the agreement failed. The action was for damages equal to the loss of profit that the purchaser had suffered as a result of not being able to purchase the property, lease it up and then resell it. (At the time of the APS being entered into, the mall had significant vacant space, which the purchaser claimed it would have been successful in leasing at commercial rates over a period of 12 to 24 months after the closing of the transaction.)

At the trial, there was much expert evidence on the timing of the additional environmental testing the purchaser required (that is, whether it could be completed within the due diligence period) and whether the purchaser would have been able to lease up the vacant space in the mall. The purchaser also found certain expenses that it claimed were legally recoverable as common area expenses from the mall tenants, thus increasing cash flow to the owner of the mall.

The first issue to be decided by the court was whether the vendor had breached the APS. The court found that the tests requested by the purchaser were reasonable tests and inspections that would not interfere with the tenants unduly.

The reasonableness of the drilling program was assessed by the court in the context of (a) the particular environmental contamination it was intended to delineate and (b) the contractual relations between the parties. Since there was no doubt that contamination existed, the proposed interior bore hole drilling was reasonable. It had been proposed by both of the environmental engineers involved. The APS contained no specific restriction on the tests that the purchaser was entitled to do. It was foreseeable that a lender might require further environmental testing.

With respect to interference with the tenant, no evidence was given to the court that the tenant would be upset by such further testing. The first engineer had already drilled inside the tenant's premises. There was no evidence that this drilling had resulted in debris that had adversely affected the site. Further, the APS only prohibited "undue" interference. In other words, some amount of interference was contemplated and, in the circumstances, the proposed testing had not been shown to create "undue" interference with the use of the premises.

Finally, the court dealt with the issue of whether the vendor had unreasonably withheld its consent to the proposed testing. The vendor suggested that its discretion in this regard was quite broad. However, the court was of the view that the discretion had a limited scope; that it could be invoked only to the extent that the proposed drilling would have a significant adverse impact on the mall structure. In reaching this view, the

"...the court held that there was no question that the vendor's actions deprived the purchaser of the contractual opportunity to acquire the mall."

court considered the meaning of the words "invasive" and "intrusive" and concluded that they referred to physical penetration of the mall structure, not to unwanted or unwelcome testing.

Although the proposed testing was invasive or intrusive, the court concluded that there was no basis on which the vendor could reasonably withhold its consent to the proposed testing, since there was no evidence that it would have resulted in any permanent damage to the mall. The court thus concluded that the vendor was in breach of the APS.

The court then turned to a consideration of whether there was a sufficient causal connection between this default and the damages that were claimed by the purchaser. As the court put it, the vendor's default was not in failing to close in the face of the tender of the purchase price by the purchaser. Rather, the vendor had failed to permit the purchaser to conduct environmental testing that it was entitled to do and the APS had automatically terminated. The court therefore had to assess the purchaser's position as if the environmental testing had in fact been completed, rather than as if the transaction had closed.

Could the purchaser have completed the transaction? The principles applicable to this question are those applicable to a loss of contractual opportunity or a loss of chance. Under existing law, a plaintiff can recover damages for a lost chance if four criteria are met – if (1) the plaintiff establishes on the balance of probabilities that, but for the defendant's wrongful conduct, the plaintiff had a chance to obtain a benefit, (2) the plaintiff shows that the chance lost was sufficiently real and significant as to rise above being mere speculation; (3) the plaintiff demonstrates that the benefit to be obtained was dependant on someone or something other than the plaintiff himself or herself and (4) the plaintiff shows that the lost chance had some practical value.

With respect to the first criterion, the court held that there was no question that the vendor's actions deprived the purchaser of the contractual opportunity to acquire the mall.

With respect to the third criterion, the court held that the purchaser had established that the gain would be principally dependent on the realities of the real estate market. (The market had, in fact increased or improved, over the period in question).

With respect to the second criterion, it had been suggested in a previous case that chances assessed at having a probability of occurring of less than 15 per cent were seldom viewed as real chances. The court was of the view that this criterion raised significant issues in this case: was the lost chance here sufficiently real and significant to rise above mere speculation?

The vendor submitted that, for the purchaser to succeed, it had to show that the transaction had at least a 50 per cent probability of closing. The court did not agree with this. It felt that the purchaser had to show only that the lost opportunity was not speculative and this meant that if the probability was above 15 per cent, then the test had been met.

"[The Court] felt that the purchaser had to show only that the lost opportunity was not speculative..."

The court held that the evidence indicated that the only obstacle to the purchaser completing the transaction was the need to obtain financing. The court examined the obstacles that were in the path of the purchaser completing its due diligence by the required due diligence date — completion of the additional environmental drilling program, sufficient delineation of the contamination to provide a satisfactory report to the proposed lender, and the risk that the report would reveal contamination exceeding the threshold acceptable to the lender.

The court heard much evidence respecting these obstacles and its decision was somewhat fact-driven. The court heard evidence from the purchaser's lender that was very favourable to the purchaser and it heard evidence from environmental experts that allowed it to hold as it did. The court concluded that there was a real possibility that the second environmental engineer could have delivered an acceptable report to the lender prior to the due diligence date and that the lender could deliver an acceptable binding financing commitment to the purchaser also before the due diligence date. The court found the probability of such an occurrence to be 40 to 60 per cent, which it averaged at 50 per cent. In effect, it held that the breach of the agreement by the vendor resulted in the deprivation to the purchaser of a 50 per cent opportunity to close the transaction.

This led to the final issue, which was the valuation of damages. The purchaser asked for damages in an amount equal to the value of the mall two years after the proposed closing date, less the purchase price under the APS. The basis for this was the purchaser's plan to lease up the vacant space in the mall and then sell it within two years.

The court stated that, normally, damages are assessed as of the date of the breach. In this particular case, this meant the date that the transaction would have closed.

In determining the value of the property as at the closing date, the court started with an appraisal as of that date that was put into evidence. The court then held that the purchaser would have probably been successful in leasing up a substantial portion of the vacant space. The court put the odds of this at one-third.

The court also held that it was probable that the purchaser would have recovered up to 50 per cent of the management office and salary expenses not previously charged by the vendor to tenants of the mall. On the basis of these two determinations, the court increased the valuation of the mall that had been provided to it, based on the additional cash flow that would have resulted, which resulted in an adjusted value of the mall as at the date of the potential closing of $26,160,000. Thus the gain that the purchaser could have obtained was $660,000. Based on the court's previous finding that the probability of the closing occurring was 50 per cent, damages were assessed at $330,000.

As stated above, this decision could be said to have been somewhat fact driven. For example, the vendor's decision not to allow the additional testing looked unreasonable in light of the fact that a bore hole had already been drilled in the tenant's premises, apparently without any complaint by the tenant. Further, the lender's testi-

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mony relating to its willingness to give a commitment helped persuade the court that this was in fact possible, notwithstanding the very tight timeframe that existed. And, the fact that the mall had vacant space to be leased up helped the purchaser persuade the court that the value of the mall could have been increased by the purchaser. Notwithstanding these unique facts, the whole scenario of a due diligence period and testing done by a purchaser is far from unique. As a result, this case stands as a warning to unreasonable vendors - don't try to take advantage of a rising real estate market by unreasonably getting rid of one purchaser to move on to a potentially higher price from another purchaser.

This decision is under appeal and it will be interesting to see how the Court of Appeal deals with this very detailed and strong trial decision. ■

Blaney McMurtry LLP is pleased to announce

David Ma

has recently joined the firm's Corporate/Commercial group.

David maintains a practice focusing on commercial transactions involving technology (including outsourcing, development, licensing, distribution, service provision, procurements, electronic commerce and related matters) as well as corporate matters involving companies that develop, market and exploit technology (including shareholder agreements, corporate structures and reorganizations, financings and acquisitions and divestitures).

David was called to the Bars of Ontario and New York in 2000. He is also qualified as a Chartered Accountant and a Chartered Financial Analyst.

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