Cassels

“Electrifying” Insights: Federal Court Considers Comparative Advertising

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The Federal Court’s recent decision in *Energizer Brands, LLC v. Gillette Company*[1] considers whether a comparative advertising campaign that made both direct and indirect references to a competitor’s brand violated the *Trademarks Act* or *Competition Act*. This decision is the latest word in a limited line of case law on the intersection between comparative advertising, trademark law and competition law. It provides valuable insights for consumer-facing businesses when considering a comparative advertising campaign.

Background

This case involved Canada’s two leading consumer battery brands: Duracell and Energizer. Duracell attached stickers to its battery packaging that claimed its batteries lasted longer than Energizer’s. Some of these stickers displayed Energizer’s registered trademarks ENERGIZER and ENERGIZER MAX:

- “15% Longer Lasting vs. Energizer”;
- “Up to 15% Longer Lasting vs. Energizer Max”;

whereas others did not display Energizer’s registered trademarks but referred to Energizer’s products indirectly:

- “Up to 20% Longer Lasting vs. The Bunny Brand”
- “Up to 15% Longer Lasting vs. The Next Leading Competitive Brand”.

Energizer brought a claim against Duracell under section 22(1) of the *Trademarks Act*, arguing that Duracell’s stickers used Energizer’s trademarks in a manner that was likely to depreciate the value of the goodwill in those trademarks. Energizer also relied on several statutory prohibitions on the use of false or misleading statements, including sections 7(a) and 7(d) of the *Trademarks Act* and sections 36(1) and 52(1) of the *Competition Act*.

Depreciation of Goodwill

With respect to Energizer’s claims for depreciation of goodwill under section 22(1) of the *Trademarks Act*, the Federal Court held that Duracell's stickers displaying the registered trademarks ENERGIZER or ENERGIZER MAX violated section 22(1). However, it held that Duracell's stickers which merely referred to the "bunny brand" or the "next leading competitive brand" were not violations.

The Court summarized the established test for depreciation of goodwill, namely that: (1) the plaintiff's registered trademark was used by the defendant in association with goods or services; (2) the plaintiff's registered trademark is sufficiently well-known to have a significant degree of goodwill; (3) the plaintiff's registered trademark was used in a manner likely to have an effect on the goodwill; and (4) the likely effect of the defendant's use was to depreciate the value of the goodwill.

The Court repeatedly noted that its analysis was made more difficult by the fact that neither party presented direct evidence of how consumers would react to Duracell's stickers, whether their purchasing behaviour with respect to Energizer would change because of Duracell's stickers, or if Duracell's stickers would otherwise negatively impact Energizer's goodwill. Although both parties tendered extensive expert evidence on principles of consumer behaviour and how consumers might interpret stickers like Duracell's, the Court found this evidence to be largely theoretical and that it did not provide any opinion on the actual purchasing environment for consumer batteries. The Court therefore relied on general marketing principles and its own common sense of how the average consumer of batteries would react to Duracell's stickers and to what extent, if any, Duracell's stickers would affect Energizer's goodwill.

For the stickers that displayed the registered trademarks ENERGIZER and ENERGIZER MAX, the Court noted that displays for batteries in retail stores tend to be crowded, meaning that the average consumer may not be significantly impacted by any one sticker on a package. Nonetheless, the Court concluded that Duracell's stickers violated section 22(1) by using Energizer's registered trademarks in a way that was likely to result in lost control and reduced distinctiveness in Energizer's marks. The Court emphasized that Duracell's sticker campaign was persistent, intended to take custom away from Energizer, and could depreciate the goodwill in Energizer's marks over time due to the prevalence of repeat customers who would be familiar with the comparative claims from their previous purchases.

In addition to the word marks ENERGIZER and ENERGIZER MAX, Energizer owns trademark registrations depicting its "Energizer bunny" character. The Court held that the stickers referring to "the bunny brand" were capable of evoking Energizer's registrations for its bunny in the minds of average consumers, particularly given the well-known and "iconic" nature of the character. However, the Court concluded that these stickers were not likely to depreciate the goodwill in Energizer's registrations for the bunny design and therefore did not violate section 22(1). The Court emphasized there were too many additional mental steps that the average consumer would have to go through for these stickers to impact the goodwill of its bunny registrations. Even if consumers noticed the reference to "The Bunny Brand," which was in small type on Duracell's stickers, they would also have to think of the Energizer bunny character and remember that this character is associated with Energizer. Without direct evidence showing that the average consumer goes through these mental steps automatically, the Court was not willing to infer that they do.

The Court concluded that stickers referring to "the next leading competitive brand" were not sufficiently similar to any of Energizer's registered trademarks to satisfy the first step of the section 22(1) test. Although those stickers might depreciate the goodwill in Energizer's *business* generally, there was no evidence that they would depreciate the goodwill in Energizer's *trademarks*, so there could be no violation of section 22(1).

False or Misleading Statements

The Court then analyzed the substance of Energizer's performance claims under sections 7(a) and 7(d) of the *Trademarks Act* and section 52(1) of the *Competition Act*. Although the wording of the exact test under each section differs, the Court found that they all require an advertiser to have made a false or misleading statement and for that false or misleading statement to have been "material" in the sense that they could impact consumer behaviour, such as by influencing consumers to buy or use the advertised products or services.

In this case, the Court held that Duracell's factual claims on its stickers were not false or misleading. Specifically, the Court was satisfied based on Duracell's evidence that Duracell had a "reasonable basis" for making the performance claims. The Court emphasized that the "reasonable basis" standard is not a standard of perfection; comparative advertising is inherently one-sided, so advertisers are allowed to "push the bounds of what is fair" or "get close to the line" of false or misleading. Since Duracell's data showed that the performance claims on its stickers were "reasonably attainable to customers in the circumstances," the Court held that this was sufficient to constitute a reasonable basis to support a performance claim under both sections 7(a) and (d) of the *Trademarks Act* and section 52(1) of the *Competition Act*, thereby preventing the claims from being false or misleading.

Even if Duracell's claims had been false or misleading, the Court would have found that they were not *materially* false or misleading. The Court emphasized that the "Longer Lasting" text on Duracell's stickers was so much larger than the text referencing Energizer that the average consumer might not even realize that Duracell was comparing itself to a competitor (as opposed to a past version of Duracell's own products). More importantly, the Court noted that Energizer provided no evidence demonstrating increased sales for Duracell or lost sales for Energizer that were directly attributable to Duracell's stickers.

Key Takeaways

As one of the Federal Court's most comprehensive discussions of comparative advertising in recent years, this decision (albeit one at first instance) offers many lessons for businesses that are considering this type of advertising or want to challenge a competitor's use of this advertising.

First, a business bringing or facing a legal challenge related to comparative advertising should be prepared to present direct evidence of how consumers in the relevant market are impacted by the advertisements. This could include evidence from consumers or evidence from surveys. Theoretical evidence by marketing experts may not be sufficient. If the parties do not provide direct evidence of consumer opinion, they risk the court drawing its own conclusions based on its own common sense.

Second, the decision affirms the risks of using a direct competitor's registered trademark on packaging – risks that were first highlighted in the 1963 decision of *Clairol International Corp. v. Thomas Supply & Equipment Co*.[2] Even if there are mitigating factors present in the marketplace, courts may presume that the use of a competitor's trademark on packaging is likely to result in lost control and reduced distinctiveness for that trademark. While subtler references to a competitor still carry some risk depending on the circumstances, courts are less likely to find a violation of section 22(1) of the *Trademarks Act* if consumers are required to go through extra mental steps to connect the reference to a competitor's brand.
The *Clairol* decision has been criticized and distinguished but never overturned,[3] and is generally interpreted to mean that the risk of displaying a third party's trademark, which has been registered for goods, is always higher when the third-party trademark is displayed on goods or otherwise displayed at the time of transfer of possession of the goods (i.e., shelf-talkers), rather than advertising. This distinction arises from the different definitions of "use" in section 4 of the *Trademarks Act* for trademarks in association with goods as compared to use of a trademark in association with services. Unfortunately, the Federal Court did not need to weigh in on that long established and often-criticized distinction because the impugned stickers were applied to the goods. Accordingly, the Court did not need to consider comparative statements made in advertising.

Finally, this case is also a reminder that businesses must have substantiation for all performance claims. Businesses must be prepared to show they had a reasonable basis for making a performance claim, otherwise their claims could be found to be materially false or misleading in a civil action.

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[1] *Energizer Brands, LLC v. Gillette Company,* 2023 FC 804.

[2] *Clairol International Corp. v. Thomas Supply & Equipment Co. et. al.*, 1968 CanLII 1280 (CA EXC).

[3] Clairol was referred to repeatedly by the Supreme Court of Canada in its 2006 decision in *Veuve Clicquot Ponsardin v. Boutiques Cliquot Ltée,* 2006 SCC 23. *Veuve Clicquot* is the leading decision on depreciation of goodwill in Canada.
