

Federal Court



Cour fédérale

Date: 20170612

Docket: T-740-14

Citation: 2017 FC 571

Ottawa, Ontario, June 12, 2017

PRESENT: The Honourable Mr. Justice Boswell

BETWEEN:

DIAGEO CANADA INC.

**Plaintiff/
Defendant by Counterclaim**

and

**HEAVEN HILL DISTILLERIES, INC. and
DIAMOND ESTATES WINES & SPIRITS
LTD. d.b.a. KRISCOTT DISTRIBUTORS**

**Defendants/
Plaintiffs by Counterclaim**

JUDGMENT AND REASONS

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[1] Diageo Canada Inc., the Plaintiff/Defendant by Counterclaim [Diageo], has brought this action against Heaven Hill Distilleries, Inc. [Heaven Hill] and Diamond Estates Wines & Spirits Ltd. d.b.a. Kriscott Distributors [Diamond Estates], the Defendants/Plaintiffs by Counterclaim, alleging that they have infringed Diageo's trademarks associated with its CAPTAIN MORGAN rum products and also that they have passed off their ADMIRAL NELSON'S rum products as those of Diageo. Diageo seeks, among other things, damages and injunctive relief as a result of

the activities of Heaven Hill and Diamond Estates. Diageo's allegations are denied by Heaven Hill and Diamond Estates and they have counterclaimed as against Diageo, seeking declaratory and other relief including damages.

[2] The principal rum products in dispute look like this:



[3] An Order dated July 16, 2015, to bifurcate the liability and damages aspects of this action [the Bifurcation Order] was issued prior to commencement of the trial, so these reasons deal only with the Liability Issues as defined and stated in the Bifurcation Order.


I. Background




A. *Diageo*





[4] Diageo is a corporation under the laws of Canada with a registered office in Toronto, Ontario. It is a subsidiary of Diageo plc, a publicly listed corporation based in London, England. Diageo plc is one of the world's largest producers of spirits and through its affiliates and subsidiaries sells various brands of alcoholic beverages, including SMIRNOFF vodka, TANQUERAY gin, JOHNNIE WALKER Scotch whisky, CROWN ROYAL Canadian whisky, BAILEYS Irish Cream, and GUINNESS beer.



[5] Diageo is identified on the Trade-marks Register as being the owner of Canadian Trade-mark Registration Nos. TMA298,005; TMA409,540; TMA445,025; TMA676,015; TMA676,119; TMA846,828; TMA846,829; TMA848,087; TMA863,667; and TMA864,267.

These trademarks are summarized in the following table:

Registration No.	Registration Date	Trademark	Goods	Date of first use/ of Declaration of Use Filed
TMA298,005	December 7, 1984		Distilled alcoholic beverages.	Used in CANADA since at least as early as 1961 on wares.



Registration No.	Registration Date	Trademark	Goods	Date of first use/ of Declaration of Use Filed
TMA409,540	March 12, 1993		Rum.	Used in Canada since at least as early as November 2, 1984 on wares.
TMA445,025	July 7, 1995		(1) Rum. (2) Clothing, namely, hats, shirts, sweat-tops and bottoms, T-shirts, sweaters and jackets.	Used in CANADA since at least as early as November 1993 on wares (1). ((1) Rum)
TMA676,015	November 1, 2006	 <p data-bbox="618 1262 997 1871">Colour Claim: Colour is claimed as a feature of the trade-mark. The portion of the Pirate's hat covering his forehead is white, the portion directly above that is red, followed by a white band, and a gold band; his face and hands are natural flesh colour, his eyes, hair, beard, eyebrows and moustache are black; his earrings are gold; his ascot and cuffs are white; the collar of his cape is black; his cape is blue, with white and gold border; his jacket is red with gold border, gold belt and gold buttons; his pants are blue; his boots are brown with gold border and buckles; his gun and sword are silver; and the barrel is brown with a gold bottom and gold bands around the circumference.</p>	Alcoholic beverages, namely rum, rum-based beverages, rum-flavoured beverages and cocktails.	Declaration of Use filed October 16, 2006 on wares.

Registration No.	Registration Date	Trademark	Goods	Date of first use/ of Declaration of Use Filed
TMA676,119	November 2, 2006		Alcoholic beverages, namely rum, rum-based beverages, rum-flavoured beverages and cocktails.	Declaration of Use filed October 16, 2006 on wares.
TMA846,828	March 21, 2013		Alcoholic beverages namely rum.	Declaration of Use filed March 21, 2013 on wares.
TMA846,829	March 21, 2013		Alcoholic beverages namely rum.	Declaration of Use filed March 21, 2013 on wares.
TMA848,087	April 9, 2013		Alcoholic beverages, namely rum and rum-based beverages.	Declaration of Use filed April 9, 2013 on wares.

Registration No.	Registration Date	Trademark	Goods	Date of first use/ of Declaration of Use Filed
TMA863,667	October 25, 2013		Alcoholic beverages, namely rum, rum-flavoured and rum-based beverages.	Declaration of Use filed October 25, 2013 on wares.
TMA864,267	November 4, 2013		Alcoholic beverages, namely rum and rum-based beverages.	Declaration of Use filed November 4, 2013 on wares.

[6] Diageo has acknowledged in the Agreed Statement of Facts between Diageo and Heaven Hill that it has no present intention to re-launch rum products in Canada bearing the character representations depicted below; these representations last appeared on CAPTAIN MORGAN rum products sold in Canada in or around the years noted in the table below:

TMA298,005		1985/1986
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TMA409,540		1994/1995
TMA445,025		1999

[7] Diageo sells several varieties of CAPTAIN MORGAN rum, including Original Spiced Rum, 100 Proof Spiced Rum, Silver Spiced Rum, Gold Rum, Dark Rum, and White Rum. Each variety of CAPTAIN MORGAN rum bears a label containing a fanciful depiction of Sir Henry Morgan, a 17th century privateer, and they look like this:



[8] Annual sales of the CAPTAIN MORGAN Original Spiced Rum variety in Canada for 2004 approximated 135,930 nine-litre cases (equivalent to over 1.6 million 750ml bottles) and,

for all varieties of CAPTAIN MORGAN rum, approximated 556,290 nine-litre cases (equivalent to over 6.68 million 750ml bottles). Annual sales of the CAPTAIN MORGAN Original Spiced Rum variety in Canada for 2015 approximated 632,140 nine-litre cases (equivalent to over 7.5 million 750ml bottles) and, for all varieties of CAPTAIN MORGAN rum, approximated 1.1 million nine-litre cases (equivalent to over 12 million 750ml bottles).

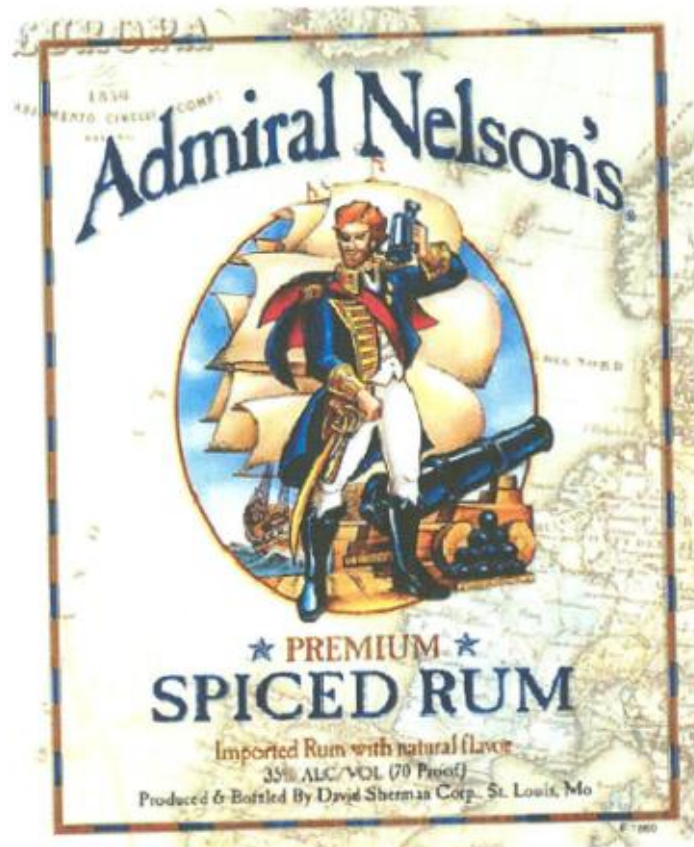
B. *Heaven Hill and Diamond Estates*

[9] Heaven Hill is incorporated pursuant to the laws of the State of Kentucky, with a registered address in Bardstown, Kentucky, in the United States of America. It is a private distillery that produces and markets distilled spirits. Heaven Hill is the seventh largest alcohol supplier in the United States, the second largest holder of bourbon whiskey in the world, and the largest independent family-owned and operated producer and marketer of distilled spirits in the United States. Heaven Hill has shipped and sold various brands of alcoholic beverages to provincial boards and organizations in Canada for retail resale for approximately 20 years. In addition to the ADMIRAL NELSON'S brand, some of Heaven Hill's other brands of alcoholic beverages sold into Canada include HPNOTIQ Liqueur, EVAN WILLIAMS and ELIJAH CRAIG bourbon whiskeys, and TWO FINGERS tequila.

[10] Diamond Estates has acted as Heaven Hill's broker in Canada for ADMIRAL NELSON'S rum products since 2011, and has been its exclusive broker for these products since 2012. Other than in Quebec, Diamond Estates has acted as Heaven Hill's broker in Canada for a decade or so for other alcoholic products. As Heaven Hill's broker, Diamond Estates assists Heaven Hill in the marketing and distribution of Heaven Hill's alcoholic beverages in Canada. In

an Order dated September 25, 2015, made by the case management judge for this proceeding, Diageo's action as against Diamond Estates was stayed pending the final disposition of the claim and counterclaim as between Diageo and Heaven Hill. That Order stipulates that if the Court enjoins Heaven Hill's sale and orders the delivery-up or destruction of the ADMIRAL NELSON'S rum products in Canada, Diamond Estates will consent to judgment on the same terms, and that if the Court dismisses the action as against Heaven Hill, the action as against Diamond Estates will also be dismissed. Diamond Estates did not participate at the trial of this action, although its founder did testify at the trial.

[11] Heaven Hill acquired the assets and business relating to the ADMIRAL NELSON'S brand of rum from Luxco, Inc., on or about July 1, 2011. It is the registered owner of Canadian Trade-mark Registration No. TMA663, 725, registered on March 5, 2006, for the word trademark "ADMIRAL NELSON'S" with respect to the following goods: (1) alcoholic beverages, namely, rum; and (2) rum. It is also the registered owner of U.S. Trademark Registration No. 2436494 for the design trademark shown below, which was filed on August 13, 1999 and registered on March 20, 2001:



[12] ADMIRAL NELSON'S rum products were distributed and sold in the United States and Canada before Heaven Hill's acquisition of the ADMIRAL NELSON'S brand in 2011.

ADMIRAL NELSON'S rum products and CAPTAIN MORGAN rum products have both been sold in the United States since 1998.

[13] Each variety of ADMIRAL NELSON'S rum bears a label with a fanciful depiction of Vice Admiral Horatio Lord Nelson, a British naval officer in the late 18th and early 19th centuries. Retail sales of ADMIRAL NELSON'S rum products in Alberta commenced in about 2003. There were intermittent retail sales of ADMIRAL NELSON'S rum products from 2005 to 2009 in British Columbia and from 2004 to 2006 in Saskatchewan. Annual retail sales of

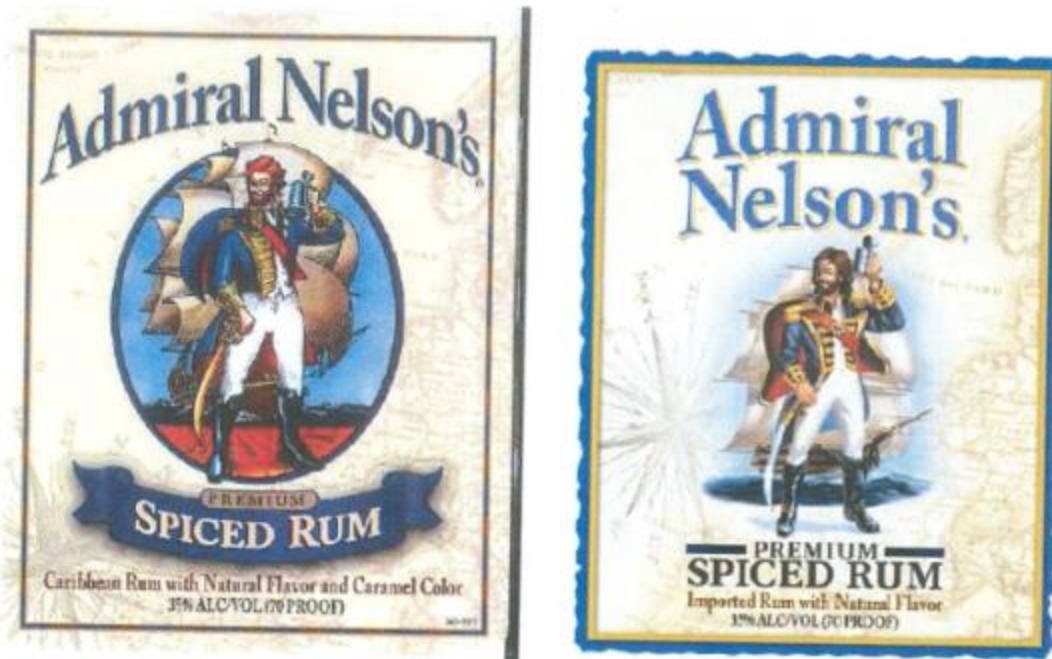
ADMIRAL NELSON'S rum products in Canada approximated 178.3 nine-litre cases (2,140 bottles) in 2003 and 406 nine-litre cases (4,872 bottles) in 2012. Annual retail sales of ADMIRAL NELSON'S rum products in Canada approximated 890 nine-litre cases (10,680 bottles) in 2014 and 657 nine-litre cases (7,884 bottles) in 2015 up to May 2015.

[14] The ADMIRAL NELSON'S Premium Spiced Rum and ADMIRAL NELSON'S Coconut Rum varieties, which were distributed for retail sale and sold in Canada immediately before and immediately after Heaven Hill's acquisition of the ADMIRAL NELSON'S brand in 2011, are depicted below:



C. *ADMIRAL NELSON'S Revised Packaging*

[15] Beginning in 2011, and continuing on into 2012 and 2013, Heaven Hill revised the packaging for ADMIRAL NELSON'S rum products. The final label for the Premium Spiced variety after revision of the packaging is shown below, at the right, and the front label at the time of Heaven Hill's acquisition of the ADMIRAL NELSON'S brand in 2011 is shown below at the left:



[16] The revised ADMIRAL NELSON'S rum products with the revised packaging are depicted below:







[17] In November 2013, Heaven Hill began shipping and selling to Canadian retailers five varieties of ADMIRAL NELSON'S rum; namely, Premium Dark, Premium Silver, Premium Gold, Premium Spiced, and Premium Coconut. Each of the five varieties of ADMIRAL NELSON'S rum with the revised packaging bears a fanciful depiction of Vice Admiral Horatio Lord Nelson.

[18] In about November 2013, Heaven Hill started to ship ADMIRAL NELSON'S rum products with the revised packaging to Alberta retailers, the New Brunswick Liquor Corporation, and the Nova Scotia Liquor Corporation. Retail sales of ADMIRAL NELSON'S rum products with the revised packaging commenced in about November or December 2013 in Alberta, about December 2013 in New Brunswick, and in 2014 in Nova Scotia. The evidence at trial was such

that these three provinces are the only jurisdictions in Canada where ADMIRAL NELSON'S rum products are currently sold to consumers.

[19] Depending upon provincial laws and regulations, alcoholic beverages are sold through liquor stores and grocery stores. In most Canadian provinces, retail liquor stores are regulated and government controlled. Some provinces, including Ontario and New Brunswick, have agency stores which are independent local retailers authorized by the provincial liquor board or organization to sell alcoholic beverages. Alberta is considered to be an open, deregulated market. There are no government owned retail liquor stores in Alberta. In British Columbia and Quebec, retail sales of spirits are sold by government liquor stores and private liquor stores. Online retail sales of spirits are available in Nova Scotia, Quebec, Ontario, Alberta, and British Columbia. Liquor varieties are often grouped together in the same area of physical retail liquor stores. Rums are often grouped together on liquor store shelves in the same area.

[20] After Diageo learned about the sales of ADMIRAL NELSON'S rum products in Canada, Heaven Hill received a demand letter from Diageo's attorneys dated March 17, 2014, putting it and Diamond Estates on notice with regard to their infringement of Diageo's rights and their acts of unfair competition. Heaven Hill continued marketing its ADMIRAL NELSON'S products after receipt of the demand letter. Subsequently, Diageo issued a press release dated March 26, 2014, which included the following statements:

Heaven Hill's use of blatantly confusing trade dress, including blatantly confusing historical character, in connection with the sales of the ADMIRAL NELSON rum brand is clearly intended to mimic the CAPTAIN MORGAN brand to trade upon the brand's goodwill and create consumer confusion.

“Diageo appreciates healthy competition, as continued innovation maintains consumer excitement and benefits the entire industry,” said Iain Chalmers, Vice President of Marketing, Diageo Canada. “However, we are strongly opposed to competitors copycatting the label design and character trademark of established brands like CAPTAIN MORGAN. We will fight these infringements wherever we can.”

II. Issues

[21] The parties’ efforts to agree upon a statement of issues for trial prior to the hearing of this matter failed to result in a joint statement of issues. Nonetheless, the parties did submit their own respective statement of the issues, and upon review of these statements and in view of the evidence and submissions at trial, the following issues arise:

1. Is Diageo’s action an abuse of the Court’s process?
2. Is Diageo estopped by acquiescence, laches and delay from asserting rights in and to its trademarks and rum products as against Heaven Hill?
3. Are any of Diageo’s claims statute-barred as against Heaven Hill?
4. Are any of Diageo’s Trade-mark Registrations invalid by reason of non-distinctiveness, non-entitlement or abandonment, and if so should they be expunged?
5. Has Heaven Hill sold, distributed or advertised any of its ADMIRAL NELSON’S rum products in Canada?
6. Has Heaven Hill passed off its ADMIRAL NELSON’S rum products as the goods of Diageo in contravention of subsections 7(b) and 7(c) of the *Trade-marks Act*, RSC 1985, c T-13 [the *Act*]?

7. Does Heaven Hill's use of its character or label trademarks in association with ADMIRAL NELSON'S rum products constitute an infringement of Diageo's exclusive right to use its registered trademarks, contrary to section 20 of the *Act*?
8. Is Heaven Hill's use of its character or label trademarks in association with ADMIRAL NELSON'S rum products likely to depreciate the value of the goodwill associated with Diageo's registered trademarks, contrary to subsection 22(1) of the *Act*?
9. Is Heaven Hill entitled to any of the relief requested in its Amended Statement of Defence and Counterclaim?
10. Is Diageo entitled to any of the relief requested in its Amended Statement of Claim?

III. Analysis

A. *Is Diageo's action an abuse of the Court's process?*

[22] Heaven Hill claims Diageo has brought this action in an attempt to limit and stifle competition with CAPTAIN MORGAN rum products in the Canadian market. Heaven Hill asserts that this action is an abuse of process and is predatory, frivolous, and vexatious, intended only to harass and intimidate Heaven Hill. According to Heaven Hill, Diageo's action improperly interferes with Heaven Hill's legitimate business with respect to its ADMIRAL NELSON'S rum products. Heaven Hill alleges that Diageo brought this action with full knowledge and awareness that it is without merit and for ulterior and collateral purposes of stifling legitimate competition.

[23] The only evidence adduced at trial by Heaven Hill to support its claim of Diageo's action being an abuse of process was an email exchange involving Alister Kidd, then a brand manager at Diageo for CAPTAIN MORGAN, dated December 12, 2013, wherein the following was stated:

I've spoken with our IP team...Apparently Admiral Nelson has been in the US for some time and has created problems for Captain Morgan. The team in the US didn't react, and the brand has been allowed to establish itself, taking volume from CMOS [Captain Morgan Original Spiced].

The IP team doesn't want to see this repeated in Canada, and I have a call with them next week to review next actions.

[24] It is true, as Heaven Hill points out, that abuse of process can be invoked as a procedural defence in a trademark infringement suit. However, a defendant asserting abuse of process as an affirmative defence must prove that the abuser has used the legal process for a purpose other than that which it was designed to serve; in other words, for a collateral, extraneous, ulterior, improper, or illicit purpose (see: *Levi Strauss & Co v Roadrunner Apparel Inc*, [1997] FCJ No 1432 at para 13, 221 NR 93 (CA) [*Levi Strauss*]). "The gist of the tort is the misuse or perversion of the Court's process and there is no abuse when a litigant employs regular legal process to its proper conclusion, even with bad intentions" (*Levi Strauss* at para 11). The Court of Appeal in *Levi Strauss* also noted that "the difficulties for a defendant of proving a misuse or perversion of the process on the part of a plaintiff seeking to enforce its trademark through the legal process cannot be underestimated" (at para 15).

[25] In my view, Heaven Hill's arguments in this regard are without merit: not only because the evidence upon which Heaven Hill relies to establish an abuse of process by Diageo shows no

collateral, extraneous, ulterior, improper, or illicit purpose; but also because there is no other evidence before the Court to show that Diageo's action is anything other than one to enforce what it regards as its trademark rights in Canada as against Heaven Hill.

B. *Is Diageo estopped by acquiescence, laches and delay from asserting rights in and to its trademarks and rum products as against Heaven Hill?*

[26] Heaven Hill contends that the equitable doctrines of laches, acquiescence and delay apply in this case, such that Diageo is estopped from seeking the relief it claims. According to Heaven Hill, there is direct evidence of actual knowledge of the ADMIRAL NELSON'S brand as early as 2009 by Diageo plc, and Diageo Canada knew or ought to have known of the sale and marketing of ADMIRAL NELSON'S products in Canada as early as 2003. Despite this knowledge, Heaven Hill says Diageo stood by and watched for over a decade as it continued to sell its ADMIRAL NELSON'S rum products in Canada, while failing to take any steps to enforce the rights Diageo claims in this action and in so doing Diageo acquiesced and implicitly waived its rights.

[27] Heaven Hill further contends that, by delaying its action, Diageo has permitted the ADMIRAL NELSON'S brand to establish itself in the marketplace and it would be unjust to disturb the headway it has made in attempting to compete with other rum products in Canada, including CAPTAIN MORGAN. Heaven Hill says it has relied on Diageo's failure to take any steps to enforce the rights claimed in this action, resulting in Heaven Hill's reasonable reliance on Diageo's acceptance of the status quo. Heaven Hill states that, even if the Court finds that the ADMIRAL NELSON'S products infringe the CAPTAIN MORGAN trademarks, the injunction

sought by Diageo is not an appropriate remedy. According to Heaven Hill, the Court must consider the equities as at the date of trial in determining whether the doctrine of laches should apply to deny Diageo any injunctive relief. In Heaven Hill's view, Diageo's delay and acquiescence has resulted in the establishment of the ADMIRAL NELSON'S brand in the marketplace, and because Diageo waited more than a decade to take any steps to enforce its alleged rights against Heaven Hill, Diageo's request for injunctive relief should be denied.

[28] Diageo reminds the Court that Heaven Hill bears the burden of proving a defence of laches. According to Diageo, Heaven Hill's claims that Diageo must have known or should have known of the sale of ADMIRAL NELSON'S rum products in Canada dating back to 2003 are completely unsubstantiated and must fail. Diageo maintains it was unaware of ADMIRAL NELSON'S rum until it was seen in New Brunswick in mid-December 2013 and, thereafter, it promptly sent a cease and desist letter on March 17, 2014, and commenced this action on March 26, 2014.

[29] Diageo refutes Heaven Hill's argument that knowledge of the ADMIRAL NELSON'S products in the United States by other entities within the Diageo plc organization should preclude Diageo from any equitable relief. According to Diageo: there was never any knowledge of the ADMIRAL NELSON'S product being sold in Canada until December 2013; no Diageo entity was aware of ADMIRAL NELSON'S rum being sold anywhere in the world before 2009; Diageo was never advised as to the existence of ADMIRAL NELSON'S rum in other countries; other than its biggest competitors, Diageo never discussed its competitors with Diageo US; and,

many brands of alcoholic beverages sold in the United States are never sold in Canada, including many of Heaven Hill's own brands.

[30] Diageo says Heaven Hill has not established that it has been prejudiced by Diageo's alleged delay because: Heaven Hill has not invested in the ADMIRAL NELSON'S products in Canada in any material respect since it acquired the brand in 2011; there is no short-term plan for the brand in Canada, nor has Heaven Hill made any sales projections for Canada; there is no marketing budget; and because Max Shapira, Heaven Hill's President, acknowledged the absence of prejudice during his testimony at discovery (which was read in at the trial) as follows:

Q. Did Heaven Hill ever do something differently or change its position in relation to the sale of Admiral Nelson's because of the alleged delay by Diageo in taking action?

A. No, not at all.

[31] The jurisprudence pertaining to laches and acquiescence is well-established and was summarized by the Supreme Court of Canada in *Manitoba Métis Federation Inc v Canada (Attorney General)*, 2013 SCC 14, [2013] 1 SCR 623:

[145] The equitable doctrine of laches requires a claimant in equity to prosecute his claim without undue delay. It does not fix a specific limit, but considers the circumstances of each case. In determining whether there has been delay amounting to laches, the main considerations are (1) acquiescence on the claimant's part; and (2) any change of position that has occurred on the defendant's part that arose from reasonable reliance on the claimant's acceptance of the status quo: *M. (K.) v. M. (H.)*, [1992] 3 S.C.R. 6, at pp. 76-80.

[146] As La Forest J. put it in *M. (K.)*, at pp. 76-77, citing *Lindsay Petroleum Co. v. Hurd* (1874), L.R. 5 P.C. 221, at pp. 239-40:

Two circumstances, always important in such cases, are, the length of the delay and the nature of the acts done during the interval, which might affect either party and cause a balance of justice or injustice in taking the one course or the other, so far as relates to the remedy.

La Forest J. concluded as follows:

What is immediately obvious from all of the authorities is that mere delay is insufficient to trigger laches under either of its two branches. Rather, the doctrine considers whether the delay of the plaintiff constitutes acquiescence or results in circumstances that make the prosecution of the action unreasonable. Ultimately, laches must be resolved as a matter of justice as between the parties, as is the case with any equitable doctrine. [Emphasis added; pp. 77-78.]

[32] The evidence adduced at trial does not, in my view, establish Heaven Hill's allegation that Diageo knew or ought to have known of the sale and marketing of ADMIRAL NELSON'S rum products in Canada as early as 2003. Although the evidence suggests that entities within the Diageo plc organization may have been aware of ADMIRAL NELSON'S as early as 2009, and although one of Heaven Hill's witnesses testified that he has been aware of ADMIRAL NELSON'S for two decades and said it is a long-standing brand in Canada, no evidence directly contradicts or diminishes the weight of the evidence that Diageo only became aware of ADMIRAL NELSON'S rum products being sold in Canada, and in particular in New Brunswick, in mid-December 2013. Peter Kourtis, Diageo's General Manager, testified that Diageo first became aware of ADMIRAL NELSON'S rum products in Canada when ADMIRAL NELSON'S was launched in New Brunswick. Mr. Kourtis' testimony was not discredited on cross-examination and it was substantiated by Darcy Traer, a key account manager for Diageo in Atlantic Canada in 2013, who testified as to email correspondence between him and other

Diageo employees on or about December 11, 2013, regarding ADMIRAL NELSON'S rum being offered for sale in New Brunswick. Diageo's witnesses consistently maintained that this was when Diageo first became aware of ADMIRAL NELSON'S rum products being sold in Canada.

[33] Accordingly, in view of the evidence, I find it more likely than not and on a balance of probabilities that Diageo was unaware of ADMIRAL NELSON'S rum products being sold in Canada prior to on or about December 11, 2013. This being so, it cannot be said that there was undue delay in Diageo's commencement of this action, especially in view of the fact that Diageo's Statement of Claim was filed on March 26, 2014, only some 14 weeks after Mr. Traer sent a photograph of a bottle of ADMIRAL NELSON'S rum on sale at an Alcool NB Liquor store to Alistair Kidd, Diageo's brand manager for Canada. It also cannot be said that Diageo has acquiesced to ADMIRAL NELSON'S rum products being sold in Canada because this action, if anything, evidences not only an absence of undue delay but also an absence of acquiescence by Diageo.

[34] Moreover, Heaven Hill has not shown how it has been prejudiced by Diageo's alleged delay in enforcing the rights Diageo claims in this action. Heaven Hill has also not shown how it changed or altered its position by relying upon Diageo's alleged acceptance of the status quo. On the contrary, Mr. Shapira's admission that Heaven Hill has not done anything differently or changed its position in relation to the sale of ADMIRAL NELSON'S rum products serves to undermine and defeat Heaven Hill's claim that Diageo should be estopped by acquiescence, laches and delay from asserting rights in and to its trademarks and CAPTAIN MORGAN rum

products as against Heaven Hill. Consequently, I find Diageo is not estopped in this action as against Heaven Hill by reason of acquiescence, laches or delay.

C. *Are any of Diageo's claims statute-barred as against Heaven Hill?*

[35] Heaven Hill argues that Diageo's action is statute-barred from the relief sought. By virtue of subsection 39(1) of the *Federal Courts Act*, RSC 1985, c F-7, and in view of the Federal Court of Appeal's decision in *Apotex Inc v AstraZeneca Canada Inc*, 2017 FCA 9 at para 114, [2017] FCJ No 22, Heaven Hill says the applicable limitation period in this case is two years pursuant to subsection 3(1) of the Alberta *Limitations Act*, RSA 2000, c L-12, since ADMIRAL NELSON'S rum products have been sold in Alberta since as early as 2003. Heaven Hill points out that the limitation period in subsection 3(1) commenced once Diageo knew or ought to have known about the alleged infringement. In *Yugraneft Corp v Rexx Management Corp*, 2010 SCC 19 at para 60, [2010] 1 SCR 649, the Supreme Court of Canada said that subsection 3(1) "does subject the knowledge elements of its discoverability rule to an objective test: the plaintiff must know or 'ought to have known' the elements that trigger the running of the limitation period. Thus, constructive or imputed knowledge, in addition to actual knowledge, will trigger the limitation period." According to Heaven Hill, Diageo knew or reasonably ought to have known of the sale of ADMIRAL NELSON'S rum products in Canada since at least 2003 and, therefore, Diageo's action is statute-barred because the applicable two year limitation period has expired.




[36] Based on my finding above that Diageo first knew of ADMIRAL NELSON'S rum products being sold in Canada on December 11, 2013, Heaven Hill has not, in my view, established that Diageo "ought to have known" that ADMIRAL NELSON'S rum products were

being sold in Canada prior to December 11, 2013. The evidence shows that ADMIRAL NELSON'S rum products were sold primarily in the deregulated Alberta market prior to December 11, 2013, with annual sales in Alberta ranging from 108.3 nine-litre cases in 2003 to 333 nine-litre cases in 2012. Mr. Kourtis's testimony was that there are approximately 2,000 to 3,000 liquor retailers and a further 6,000 to 7,000 licenced establishments in Alberta, whereas a province with a larger population, such as Ontario, has approximately only 650 government-owned stores. Mr. Kourtis testified that his sales team aims to visit 80% of liquor stores across the country, except for Alberta because: "In a private area like Alberta, it would be smaller because just the sheer, sheer volume of stores. It's hard to get to every geographical area." Mr. Kourtis also testified about the significance of ADMIRAL NELSON'S retail sales, stating that 267 nine-litre cases is "a very small amount. That would be -- the size of a busy bar in downtown Toronto would sell roughly 260 cases of rum per year." Based on Diageo's evidence, and the relatively small amount of ADMIRAL NELSON'S volume in the large deregulated Alberta marketplace, Heaven Hill has not established that Diageo "ought to have known" that ADMIRAL NELSON'S rum products were sold prior to December 11, 2013. In these circumstances, finding a bottle of ADMIRAL NELSON'S rum at a liquor store or on a shelf in a bar in Alberta would be like looking for the proverbial needle in a haystack.

[37] Heaven Hill's argument that Diageo's action is statute-barred must fail since Diageo commenced its action within two years from when it knew or ought to have known the elements that triggered the running of the limitation period. Diageo filed its action on March 26, 2014, well before the expiration of any applicable two year limitation period on December 11, 2015.

D. *Are any of Diageo's Trade-mark Registrations invalid by reason of non-distinctiveness, non-entitlement or abandonment, and if so should they be expunged?*

[38] Heaven Hill claims that Diageo's Trade-mark Registrations Nos. TMA298,005, TMA409,540 and TMA445,025 are invalid because they have been abandoned and should be expunged from the Trade-marks Register. These three trademarks are depicted below:

TMA298,005		1985/1986
TMA409,540		1994/1995
TMA445,025		1999

[39] Heaven Hill notes that Diageo has never used these three trademarks in association with its rum products and has no present intention to re-launch rum products in Canada bearing the character representations in these trademarks. In Heaven Hill's view, the design forms of the

CAPTAIN MORGAN character in these three trademarks differ substantially from the more recent CAPTAIN MORGAN character design trademarks, and the three older renditions leave completely different commercial impressions than do the later CAPTAIN MORGAN character renditions.

[40] Heaven Hill contends that the more recent renditions of the CAPTAIN MORGAN character are not mere variants of the older renditions but, rather, substantial variations of the earlier versions. In Heaven Hill's view, the character's clothing and attire in the three older renditions are completely different from the later renditions and, most importantly, the three older renditions do not have what Heaven Hill characterizes as the "iconic" raised leg on a barrel pose of the later CAPTAIN MORGAN character renditions. In view of the substantial periods of non-use of these three trademarks, in association with all of the goods associated with them, and their completely different commercial impressions, Heaven Hill says Trade-mark Registrations Nos. TMA298,005, TMA409,540, and TMA445,025 should be expunged from the Trade-marks Register even though they may be associated with the later trademarks.

[41] Diageo says in cases where the trademark as used is different from the trademark as registered there will still be use of the trademark as registered if the trademark, as used, has not lost its identity and remains recognizable in spite of differences with the trademark as registered. In determining whether two trademarks are substantially different, Diageo further says the Court must look at whether the trademark has maintained its identity and recognisability, and whether it has preserved the dominant features of the trademark as registered. Moreover, Diageo notes that all of its registrations for the CAPTAIN MORGAN character are "associated" trademarks as

contemplated by subsection 15(1) of the *Act*. According to Diageo, trademarks which share common characteristics and are registered to one owner may be presumed to form a series or family of marks, and that this is tantamount to a single registration comprised of those several marks. Diageo says an associated trademark is one that is confusingly similar and would not be registrable unless it is registered by the same owner. In Diageo's view, the identity of the CAPTAIN MORGAN trademark has been preserved and any deviations would not mislead an unaware purchaser.

[42] Although Diageo has not actually used Trade-mark Registrations Nos. TMA298,005, TMA409,540, and TMA445,025 for many years and, as stated in the Agreed Statement of Facts, has no present intention to re-launch rum products in Canada bearing the CAPTAIN MORGAN character as portrayed in these three registrations, there was no evidence adduced at trial to show any intention on Diageo's part to actually abandon these trademarks or to allow their registration to lapse for want of renewal. Moreover, the registration records for each of these three trademarks show that they are "associated marks" to the seven later registrations: TMA676,015; TMA676,119; TMA846,828; TMA846,829; TMA848,087; TMA863,667; and TMA864,267.

[43] In order to establish abandonment of a trademark, two elements must be established: (1) that the trademark is no longer in use in Canada; and (2) that the owner intended to abandon the trademark (see: *Promafil Canada Ltée v Munsingwear Inc*, [1992] FCJ No 611 at para 15, 142 NR 230 (FCA) [*Promafil*]). Additionally, in the case of a design mark, which is the case here, a variant of the registered mark will constitute use of the registered mark provided the variant is not substantially different from the registered design (*Promafil* at para 15). The central question

then is: are the three trademarks Heaven Hill says have been abandoned substantially different than the subsequent emanations of the CAPTAIN MORGAN design trademarks? The test to apply in this regard is “to compare the trade mark as it is registered with the trade mark as it is used and determine whether the differences between [the]...marks are so unimportant that an unaware purchaser would be likely to infer that..., in spite of their differences, [they] identify goods having the same origin” (*Canada (Registrar of Trade Marks) v Cie internationale pour l’informatique CII Honeywell Bull SA*, [1985] 1 FC 406 at para 5, 4 CPR (3d) 523 (FCA)).

[44] It is true, as Heaven Hill points out, that there are some differences between the three earlier trademarks and the subsequent depictions of the CAPTAIN MORGAN character. Heaven Hill draws the Court’s attention to the later depictions of the CAPTAIN MORGAN character which have him with a raised leg on a barrel, and to the character’s clothing and attire in the three older renditions which, in Heaven Hill’s view, are different from the later ones. In my view though, neither these differences nor any others are substantially or significantly different from the registered designs, and they are such that an unaware purchaser would be likely to infer that, despite any differences, they identify goods having the same origin. Every depiction of the CAPTAIN MORGAN character shares the following elements: a strap across the chest; an ascot; a sword in his right hand (though in one instance it is unsheathed); a cape which is flowing open in the later versions but not in the three earlier ones; a prominent moustache and long dark hair; a nearly knee length naval jacket or coat with exaggerated cuffs; and a fanciful hat which is on the character’s head in the later versions but not on in the earlier ones (though in one instance there is no hat). Moreover, while the “pose” is seen within many images of the CAPTAIN MORGAN

character, CAPTAIN MORGAN is often displayed without the pose in some of the promotional and advertising materials received as evidence at trial.

[45] Accordingly, Heaven Hill's claim – that Diageo's Trade-mark Registrations Nos. TMA298,005, TMA409,540, and TMA445,025, have been abandoned and should be expunged from the Trade-marks Register – fails.

E. *Has Heaven Hill sold, distributed or advertised any of its ADMIRAL NELSON'S rum products in Canada?*

[46] Although Heaven Hill admitted in the Agreed Statement of Facts that it began “shipping and selling to Canadian retailer customers [provincial liquor boards and organizations] five varieties of ADMIRAL NELSON'S rum” in November 2013, and also admitted that “retail sales of ADMIRAL NELSON'S rum products with the revised packaging commenced in Alberta in about November or December 2013” and “in New Brunswick in about December 2013” and “in Nova Scotia in 2014,” Heaven Hill argued at trial that it did not admit that any of its sales actually occurred in Canada. According to Heaven Hill, the word “sells” in paragraph 20(1)(a) of the *Act* can only be interpreted as meaning the action or an act of selling or making over goods to another for a price; that is, the exchange of a commodity for money or other valuable consideration. In Heaven Hill's view, the uncontroverted evidence at trial was that all shipments of ADMIRAL NELSON'S rum products were Freight On Board [FOB] or Ex Works from Bardstown, Kentucky, in the United States, and that title in the goods passed when loaded in Bardstown for shipment to liquor commissions in Canada.

[47] Heaven Hill directs the Court's attention to *Domco Industries Ltd v Mannington Mills Inc*, [1990] FCJ No 269 at para 21, 107 NR 198 (FCA) [*Domco*], where Chief Justice Iacobucci remarked in the context of a *Patent Act* case:

There is no doubt that Mannington offered infringing goods in Canada. But that still leaves open the question whether infringing products were sold in Canada by Mannington. To my mind it is helpful in ascertaining the meaning of vending in Canada to determine where delivery of the property in question passes. I do not characterize the F.O.B. designation as an artifice or a disguise. Important legal and economic consequences flow from such a term ... Where delivery of the goods takes place is clearly of some importance in determining where vending takes place.

[48] Heaven Hill claims Diageo has not established where the contracts of sale for ADMIRAL NELSON'S rum products were entered into, and that it does not distribute ADMIRAL NELSON'S rum products within Canada. According to Heaven Hill, provincial liquor organizations or private retailers distribute the ADMIRAL NELSON'S rum products. Heaven Hill further claims it did not engage in any acts of advertising ADMIRAL NELSON'S rum products in Canada since all advertising was undertaken by Diamond Estates, and Heaven Hill's reimbursement of advertising expenses incurred by Diamond Estates does not constitute the act of "advertising" as required by paragraph 20(1)(a) of the *Act*.

[49] Diageo says Heaven Hill is precluded by Rule 183 (c)(ii) of the *Federal Courts Rules*, SOR/98-106, as amended, from raising at trial a defence relating to FOB sales because a defendant may not raise at trial a defence that is not contained in its pleading that might take an adverse party by surprise if it were not pleaded. According to Diageo, once a party makes a formal admission in a proceeding by way of a statement in its pleadings or in an agreed statement of facts, the fact in question is no longer an issue at trial. Diageo points to Heaven

Hill's pleadings and the Agreed Statement of Facts where Heaven Hill admits it has sold and continues to sell ADMIRAL NELSON'S products in Canada. For example, in paragraph 14 of Heaven Hill's Amended Statement of Defence and Counterclaim, it is stated that "ADMIRAL NELSON'S rum products have been sold in Canada by Heaven Hill or its predecessors since at least as early as 2006 in bottles bearing labels that are the same as or substantially similar to the current labels used on ADMIRAL NELSON'S rum products." And in paragraph 41 of the Agreed Statement of Facts, it is stated that: "In about November 2013, Heaven Hill started to ship ADMIRAL NELSON'S rum products with the revised packaging to Alberta retailers, the New Brunswick Liquor Corporation and the Nova Scotia Liquor Corporation." Diageo maintains that Heaven Hill made no reference to determine, as an issue at trial, whether it avoids liability for infringement due to alleged FOB sales but, instead, amongst the several thousands of pages of documents and more than 1,000 trial exhibits, it chose to raise this defence for the first time during the trial itself.

[50] Diageo claims *Domco* does not assist Heaven Hill since the Court of Appeal ultimately concluded that "vending" has the same meaning as "selling" and the issue of whether the defendant in *Domco* had advertised or distributed its products in Canada was absolutely irrelevant to an infringement analysis under the *Patent Act*. According to Diageo, the fact that a contract of sale for the goods occurred in Canada is indicative that a sale took place in Canada, and in this regard Diageo references *AMR Technology Inc v Novopharm Ltd*, 2008 FC 970 at para 15, [2008] FCJ No 1210, where the Court stated that: "if the delivery or possession of the goods takes place in Canada, or if the contract for sale took place in Canada, a sale for purposes of s. 42 of the *Patent Act*, R.S.C. 1985, c. P-4 may have taken place." [Emphasis in original]

[51] In view of subsection 4(1) of the *Act*, Diageo says the issue here is whether Heaven Hill's goods or their packaging bear the impugned trademark at the time of transfer of the property or possession "in the normal course of trade." According to Diageo, whether the legal transfer of property took place in Canada or abroad is not determinative of whether a trademark was used in Canada. Diageo says, in view of *Manhattan Industries Inc v Princeton Manufacturing Ltd*, [1971] FCJ No 1012, 4 CPR (2d) 6 [*Manhattan Industries*], that if a foreign entity such as Heaven Hill sells goods marked with a trademark to an entity located in Canada who takes possession of the goods in Canada, there will be "use" of that trademark in Canada within the definition of "use" under the *Act*, even if the transfer of title to the property may have occurred abroad. Diageo says that so long as the distribution chain of Heaven Hill's goods bearing the impugned trademark is such that it ultimately results in a sale in Canada, there will be use of the trademark in Canada.

[52] Aside altogether from the question of whether Heaven Hill has properly raised its FOB defence, the evidence adduced at trial shows that Heaven Hill, despite its arguments to the contrary, has sold, distributed, and advertised its ADMIRAL NELSON'S rum products in Canada and continues to do so. The evidence shows that, while Heaven Hill's earlier invoices to retailers of ADMIRAL NELSON'S rum products were marked FOB and Ex Works from Bardstown, Kentucky, Heaven Hill sells its rum products in Canada. In particular, in a letter dated December 23, 2014, Mr. Shapira wrote to the Alberta Gaming and Liquor Commission, stating in relevant part that:

All products will be shipped to Alberta on a consignment basis....Price quoted to the AGLC will be C.I.F. St. Albert Warehouse, in Canadian dollars....Payment by the AGLC for product we supply under the consignment program shall not be due

until the product is sold. Our product is delivered to you with intent that it is held by you for sale to the retailer or licensee...Upon sale as aforesaid, our product will be deemed first purchased by you at the quoted C.I.F. price and resold by you.
[Emphasis added]

[53] In addition, there is evidence that payments for Heaven Hill's rum products by the New Brunswick Liquor Commission are made via a wire transfer of funds to a bank account in Heaven Hill's name in Toronto, Ontario. Furthermore, Justin Ames, Heaven Hill's Director of International Marketing and Sales, testified that Diamond Estates typically acts as an agent for Heaven Hill in completing and submitting listing applications to provincial liquor commissions. In my view, irrespective of the location of the sale of ADMIRAL NELSON'S rum products and regardless of where the contract of sale occurs, the foregoing evidence shows that Heaven Hill is selling and distributing its ADMIRAL NELSON'S rum products in Canada.

[54] In my view, Heaven Hill sells and distributes its ADMIRAL NELSON'S rum products in Canada "in the normal course of trade" and in this regard the Court's decision in *Manhattan Industries* warrants note:

39 I think that those words [in the normal course of trade] must surely mean that s. 4 [of the *Act*] contemplates the normal course of trade as beginning with the manufacturer, ending with the consumer and with a wholesaler and retailer or one of them as intermediary. When the applicant sold to the retailer and the retailer sold to the public, the public came to associate applicant's mark with the HARNESS HOUSE belt; s. 4 contemplates that the use between the retailer and the public enures to the benefit of the manufacturer and its use in Canada. In other words — if any part of the chain takes place in Canada, this is "use" in Canada within the meaning of s. 4. If this interpretation is correct, then the sale by the retailers in Toronto and Montreal to the public of HARNESS HOUSE wares marked with applicant's trade mark is a "use" in Canada and it matters not whether property or possession passed to the retailer in the United States.

[55] Lastly, there is also some evidence that Heaven Hill advertises its ADMIRAL NELSON'S rum products in Canada. During cross-examination and re-examination, Mr. Ames acknowledged that Heaven Hill's website for ADMIRAL NELSON'S rum products is accessible to Canadians, notably by having a drop-down menu for Canada and by adapting the drinking age requirement for Canadian visitors to the website. A trademark which appears on a computer screen website in Canada, irrespective of where the information may have originated from or be stored, constitutes use and advertising in Canada for purposes of the *Act* (see *HomeAway.com Inc v Hrdlicka*, 2012 FC 1467 at para 22, [2012] FCJ No 1665). Mr. Ames also testified that Heaven Hill approves and pays for any advertising conducted in Canada by Diamond Estates for Heaven Hill's ADMIRAL NELSON'S rum products. Andrew Green, the founder of Diamond Estates, testified as to Heaven Hill approving promotional activities undertaken by Diamond Estates on behalf of Heaven Hill and that the costs of such activities are invoiced to Heaven Hill.

[56] In summary, I find the evidence adduced at trial shows, on a balance of probabilities, that Heaven Hill has sold, distributed, and advertised its ADMIRAL NELSON'S rum products in Canada and it continues to do so. In view of this finding, it is unnecessary to fully address the question of whether Heaven Hill properly raised its FOB defence. It is true, as Diageo points out, that this defence was not pleaded and never mentioned before the beginning of the trial of this action. However, in my view, even if Diageo may have been surprised by this defence, this is of little consequence because not only did Diageo fully address this issue at the trial but, in view of the evidence, it is a defence without merit in any event.

F. *Has Heaven Hill passed off its ADMIRAL NELSON'S rum products as the goods of Diageo in contravention of subsections 7(b) and 7(c) of the Act?*

(1) The Parties' Submissions

[57] Diageo asserts that the unregistered “get-up” or trade dress associated with its CAPTAIN MORGAN rum products are within the scope of sections 7(b) and 7(c) of the *Act*. Diageo says the term “get-up” refers to the appearance or packaging of a product, drawing the Court’s attention to *Ciba-Geigy Canada Ltd v Apotex Inc*, [1992] 3 SCR 120 [*Ciba-Geigy*], [1992] SCJ No 83, where the Supreme Court of Canada stated:

53 In *The Law of Passing-off* (1990), Wadlow gives the following definition at p. 351:

The term “get-up” is normally used in passing-off to mean the whole visible external appearance of goods in the form in which they are likely to be seen by the public before purchase. If the goods are sold in packages, then their get-up means the appearance of the pack taken as a whole. If they are sold or displayed unpackaged, then the get-up relied on can only be that inherent in the goods themselves.

54 The look, the appearance, the get-up of a product play a crucial role in the purchase process since they are the chief means at the manufacturer’s disposal to attract customers. The importance of visual impact is well known: what appeals to the eye is crucial.

55 The product’s appearance or its packaging — shape, size or colour — may be characteristic of a particular manufacturer and have the effect of marking out the product or making it recognizable as his own. In the mind of the customer appearance is not always linked to a trade mark, that is, the consumer may rely on the appearance rather than the trade mark to indicate the use of the product....

[58] According to Diageo, the definition of “distinguishing guise” is embedded in the definition of “trade-mark” in the *Act*. There is no requirement, Diageo says, for a distinguishing guise to be registered and the individual features of a “get-up” such as the CAPTAIN MORGAN character and the bottle labels are individually protectable as trademarks. Diageo claims that the CAPTAIN MORGAN trade dress is highly distinctive and has been consistently and prominently used, displayed, and advertised throughout Canada for many years. Diageo identifies the following as being the main components of the CAPTAIN MORGAN get-up:

- (1) the prominent display of the captain character;
- (2) the clear bottle with angled shoulders and embossing;
- (3) a coloured cap that coordinates with the outline of the main label;
- (4) a long neck label with the word CAPTAIN above the word MORGAN;
- (5) a neck label delimited by upper and lower gold or silver bands;
- (6) a long rectangular label having the name at the top, the variety of rum at the bottom, and the character in the middle;
- (7) a character with dark hair and facial hair, a nautical or pirate uniform with buttons and a cape displaying the colours red, white, dark blue and gold, tall dark boots, and holding a sword in his right hand; and
- (8) a ship behind the character.

[59] Diageo claims that the trade dress of the ADMIRAL NELSON’S rum varieties (i.e. Premium Dark, Premium Silver, Premium Gold, Premium Spiced, and Premium Coconut) is substantially similar to that of CAPTAIN MORGAN, save for the words ADMIRAL NELSON’S, and that Heaven Hill has passed off its ADMIRAL NELSON’S rum products as emanating from the same source as those offered by Diageo. According to Diageo, there is “an

illusion of sameness” between its CAPTAIN MORGAN rum products and Heaven Hill’s ADMIRAL NELSON’S rum products:



[60] This illusion of sameness is, in Diageo’s view, most evident with the Silver rum flavour bottles, the only two such products in the Canadian market:



[61] Diageo characterizes the CAPTAIN MORGAN character and trademarks as an iconic brand, one with “The Captain” imagery appearing in almost all promotion, marketing, and advertising. Diageo says no other brand of rum has anything like the CAPTAIN MORGAN character or the CAPTAIN MORGAN get-up; it is the only brand of rum that has an interactive mascot or character as part of its brand, and the goodwill and recognition of the CAPTAIN MORGAN character has been heightened by decades of personal interaction with hundreds of thousands of Canadian consumers. Diageo adduced plentiful evidence at trial as to the extensive promotion, marketing, and advertising of CAPTAIN MORGAN to show the “fame” of CAPTAIN MORGAN. Diageo maintains that this fame has been achieved and is maintained by way of in-store promotions within liquor stores across Canada, by displaying the CAPTAIN MORGAN character on posters, tent cards, banners and other promotional items at bars and

restaurants, by extensive print, television and internet advertising, by interactive engagement with “The Captain” at bars, restaurants and major events such as the Calgary Stampede and the Tall Ships, by sponsorships with Hockey Night in Canada, the National Hockey League and various NHL teams, and by billboard advertising and outdoor signage. In the last 15 years or so, Mr. Kourtis testified that Diageo has spent about \$150 million for promoting, marketing, and advertising its CAPTAIN MORGAN rum products, and within the last year roughly \$17 million was expended.

[62] Heaven Hill contends that Diageo has failed to prove enforceable trademark rights in the CAPTAIN MORGAN trade dress. According to Heaven Hill, other rum producers offer different varieties of rum, often using different label colours to distinguish each variety, and bottle caps and collar labels that match the colour scheme and design of the main label are also features used by other rum producers; they are not, Heaven Hill says, exclusive to CAPTAIN MORGAN rum bottles. Moreover, embossments on rum bottles, including embossments on the shoulder portion of the bottle, are not exclusive to CAPTAIN MORGAN rum bottles. Heaven Hill notes that there are other rum products distributed and sold in Canada in addition to CAPTAIN MORGAN and ADMIRAL NELSON’S which use nautical or British naval themes, and there are other rum products that use sailing ships, compass locators, and naval officer characters and names. In addition, Heaven Hill says there are other brands of rum with characters on the label and there are even some with pirate characters.

[63] Heaven Hill maintains that the current CAPTAIN MORGAN rum bottles were launched between 2010 and 2012 and, as such, this falls short of proving that the CAPTAIN MORGAN

trade dress has acquired secondary meaning and resulting enforceable trademarks. According to Heaven Hill, there are substantial differences between the ADMIRAL NELSON'S bottle adornments, including the ADMIRAL NELSON'S word trademark in a stacked form; there are also differences in the two naval characters, in that the CAPTAIN MORGAN character has an "iconic pose" with one leg up on a barrel, while the ADMIRAL NELSON'S character has both feet on the ground, has a tankard of rum in his left hand, and there is no image of a barrel on the label; and, there are differences in the background elements and predominant colours used on the labels for ADMIRAL NELSON'S rum products and those used for CAPTAIN MORGAN.

(2) Passing off

[64] Diageo claims that Heaven Hill has contravened subsections 7(b) and 7(c) of the *Act*. Heaven Hill defends itself on the basis that no liability arises under these two subsections because it did not perform any of the relevant activities in Canada and, in relation to subsection 7(c), says there was no evidence led at trial that the goods of Heaven Hill were substituted "as and for those ordered or requested."

[65] Subsections 7(b) and 7(c) of the *Act* contain the following prohibitions:

7 No person shall

...

(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

7 Nul ne peut :

[...]

b) appeler l'attention du public sur ses produits, ses services ou son entreprise de manière à causer ou à vraisemblablement causer de la confusion au Canada, lorsqu'il a commencé à y appeler ainsi l'attention,

or business and the goods,
services or business of
another;

entre ses produits, ses
services ou son entreprise et
ceux d'un autre;

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

c) faire passer d'autres
produits ou services pour
ceux qui sont commandés ou
demandés;

[66] In order to establish its claim that Heaven Hill has passed off its ADMIRAL NELSON'S rum products as those of Diageo's CAPTAIN MORGAN rum products, Diageo must prove three necessary components: (1) the existence of goodwill associated with the CAPTAIN MORGAN rum products; (2) deception of the public due to a misrepresentation; and (3) actual or potential damage (see: *Kirkbi AG v Ritvik Holdings Inc*, 2005 SCC 65 at para 66, [2005] 3 SCC 302 [Kirkbi]). The doctrine of passing off provides protection for "guises, get-ups, names and symbols which identify the distinctiveness of a source" and the misrepresentation creating confusion in the public may be willful, negligent, or careless (*Kirkbi* at paras 67 and 68). The second component requires that "confusion in the minds of the public be a likely consequence by reason of the sale, or offering for sale, by the defendant of a product not that of the plaintiffs making, under the guise or implication that it was the plaintiff's product or the equivalent" (see: *Consumers Distributing Co. v Seiko*, [1984] 1 SCR 583 at 601, [1984] SCJ No 27). To satisfy the third component for a passing off claim, a plaintiff must demonstrate it has suffered or is likely to suffer "damage as a result of the erroneous belief created by the defendant's misrepresentation that the source of the goods or services is the same as those offered by the plaintiff" (see: *Ciba-Geigy* at para 32). Additionally, as this Court observed in *Distrimed Inc v Dispill Inc*, 2013 FC 1043, [2013] FCJ No 1093:

[273] Passing off occurs when a company's business reputation or goodwill will or will likely be injured by a misrepresentation

through which a competitor creates an illusion of sameness or similarity to its wares or services, causing confusion in the consumer's mind to the effect that one's goods or services are someone else's or sponsored by or associated with that other person. It is effectively a "piggybacking" by misrepresentation....

[67] The three components for a passing off action at common law are often discussed as part of an analysis under subsection 7(b) of the *Act*. However, passing off at common law differs from a claim that subsection 7(b) has been contravened because the *Act* only applies where there are enforceable trademarks at issue. As noted by the Federal Court of Appeal in *Kirkbi AG v Ritvik Holdings Inc*, 2003 FCA 297 at para 38, [2003] FCJ No 1112 [*Kirkbi FCA*]:

[38] ...in order to use paragraph 7(b) a person must prove that they have a valid and enforceable trade-mark, whether registered or unregistered. The thing that distinguishes the common law action of passing off from a passing-off action under paragraph 7(b) of the *Act* is that in the common law action a litigant need not rely on a trade-mark to make use of an action. To bring a passing-off action under the *Act*, one must have a valid trademark within the meaning of the *Act*. The definitions in section 2 of the *Act* are integral to any trade-mark passing-off action under paragraph 7(b)...."

[68] Similarly, in *Cheung v Target Event Production Ltd*, 2010 FCA 255 at para 20, 87 CPR (4th) 287 [*Cheung*], the Federal Court of Appeal held that subsection 7(b) is "a statutory expression of the common law tort of passing off, with one exception. To resort to this paragraph, a plaintiff must prove possession of a valid and enforceable trade-mark."

[69] As to whether there would be confusion in a consumer's mind as to the source of the ADMIRAL NELSON'S rum products, the test to apply is one of the average or ordinary consumer somewhat in a hurry. In *Veuve Clicquot Ponsardin v Boutiques Cliquot Ltée*, 2006

SCC 23 at para 20, [2006] 1 SCR 824 [*Veuve Clicquot*], the Supreme Court of Canada noted that in conducting a confusion analysis: “The test to be applied is a matter of first impression in the mind of a casual consumer somewhat in a hurry who...does not pause to give the matter any detailed consideration or scrutiny, nor to examine closely the similarities and differences...”. Similarly, in *Masterpiece Inc v Alavida Lifestyles Inc*, 2011 SCC 27 at para 41, [2011] 2 SCR 387 [*Masterpiece*] the Supreme Court of Canada remarked that: “...the question is whether, as a matter of first impression, the ‘casual consumer somewhat in a hurry’ ... would be likely to be confused; that is, that this consumer would be likely to think that Alavida was the same source of retirement residence services as Masterpiece Inc.”

[70] Additionally, in *Ciba-Geigy*, the Supreme Court of Canada stated that:

51 There is no shortage of fraudulent or simply misleading practices: one may think, for example, of products having a similar get-up, the use of similar labelling, use of the same trade name, counterfeiting, imitation of packaging. These are all possible ways of attempting, deliberately or otherwise, to mislead the public. The courts and authors have unanimously concluded that the facts must be weighed in relation to an “ordinary” public, “average” customers:

...you must deal with the ordinary man and woman who would take ordinary care in purchasing what goods they require, and, if desiring a particular brand, would take ordinary precautions to see that they get it.

(Neville J. in *Henry Thorne & Co. v. Sandow* (1912), 29 R.P.C. 440 (Ch. D.), at p. 453)

52 The average customer will not be the same for different products, however, and will not have the same attitude at the time of purchase. Moreover, the attention and care taken by the same person may vary depending on the product he is buying: someone will probably not exercise the same care in selecting goods from a supermarket shelf and in choosing a luxury item. In the first case, the misrepresentation is likely to “catch” more readily.

[71] The general principles surrounding a mythical, casual or average consumer developed in the context of trademark infringement cases are equally applicable in the context of a claim for passing off. The Supreme Court of Canada in *Mattel USA Inc v 3894207 Canada Inc*, 2006 SCC 22, [2006] 1 SCR 772 [*Mattel*], offered the following guidance concerning the nature of a casual consumer somewhat in a hurry:

56 What, then, is the perspective from which the likelihood of a “mistaken inference” is to be measured? It is not that of the careful and diligent purchaser. Nor, on the other hand, is it the “moron in a hurry” so beloved by elements of the passing-off bar: *Morning Star Co-Operative Society Ltd. v. Express Newspapers Ltd.*, [1979] F.S.R. 113 (Ch. D.), at p. 117. It is rather a mythical consumer who stands somewhere in between, dubbed in a 1927 Ontario decision of Meredith C.J. as the “ordinary hurried purchasers”: *Klotz v. Corson* (1927), 33 O.W.N. 12 (Sup. Ct.), at p. 13....As Cattnach J. explained in *Canadian Schenley Distilleries*, at p. 5:

That does not mean a rash, careless or unobservant purchaser on the one hand, nor on the other does it mean a person of higher education, one possessed of expert qualifications. It is the probability of the average person endowed with average intelligence acting with ordinary caution being deceived that is the criterion and to measure that probability of confusion the Registrar of Trade Marks or the Judge must assess the normal attitudes and reactions of such persons.

[72] The Supreme Court of Canada clearly stated in *Kirkbi* that subsection 7(b) “creates a civil cause of action that essentially codifies the common law tort of passing off” (at para 23).

Accordingly, the legal principles and case law mentioned above with respect to passing off at common law are relevant to a confusion analysis for purposes of subsection 7(b) of the *Act*.

There can be no contravention of subsection 7(b), therefore, unless a plaintiff establishes confusion or the likelihood of confusion between the plaintiff’s goods and those of a defendant

(see: *Positive Attitude Safety System Inc v Albian Sands Energy Inc*, 2005 FCA 332 at para 30, [2006] 2 FCR 50).

[73] Confusion in relation to trademarks is defined in subsection 6(2) of the *Act*:

6 (2) The use of a trade-mark causes confusion with another trade-mark if the use of both trade-marks in the same area would be likely to lead to the inference that the goods or services associated with those trade-marks are manufactured, sold, leased, hired or performed by the same person, whether or not the goods or services are of the same general class.

6 (2) L'emploi d'une marque de commerce crée de la confusion avec une autre marque de commerce lorsque l'emploi des deux marques de commerce dans la même région serait susceptible de faire conclure que les produits liés à ces marques de commerce sont fabriqués, vendus, donnés à bail ou loués, ou que les services liés à ces marques sont loués ou exécutés, par la même personne, que ces produits ou ces services soient ou non de la même catégorie générale.

[74] A claim under subsection 7(b) has a temporal component since a plaintiff must establish that there was a likelihood of confusion at the time the defendant began to direct public attention to its goods (see *Asbjorn Horgard A/S v Gibbs/Nortac Industries Ltd*, [1987] FCJ No 245, 12 FTR 317 (FCA). Furthermore, in order to establish a claim that a defendant has contravened subsection 7(b), there must be "use" as defined in sections 2 and 4 of the *Act*; for the use of a mark in advertisement and promotional material to be sufficiently associated with a ware to constitute use, the advertisement and promotional material needs to be given at the time of transfer of the property in or possession of the wares (see *BMW Canada Inc v Nissan Canada Inc*, 2007 FCA 255 at para 27, 60 CPR (4th) 181) [*BMW*]. The definition of "use" in relation to a

trade-mark means “any use that by section 4 is deemed to be a use in association with goods or services.”

[75] Subsection 4(1) of the *Act* provides as follows:

4 (1) A trade-mark is deemed to be used in association with goods if, at the time of the transfer of the property in or possession of the goods, in the normal course of trade, it is marked on the goods themselves or on the packages in which they are distributed or it is in any other manner so associated with the goods that notice of the association is then given to the person to whom the property or possession is transferred.

4 (1) Une marque de commerce est réputée employée en liaison avec des produits si, lors du transfert de la propriété ou de la possession de ces produits, dans la pratique normale du commerce, elle est apposée sur les produits mêmes ou sur les emballages dans lesquels ces produits sont distribués, ou si elle est, de toute autre manière, liée aux produits à tel point qu’avis de liaison est alors donné à la personne à qui la propriété ou possession est transférée.

[76] In addition, proof of actual or likely damage is necessary to ground a claim under subsection 7(b) and, if there is a bifurcation order, as there is in this case, that simply defers proof of the extent of the damage pending a determination as to a defendant’s liability and does not relieve a plaintiff from the requirement to prove damage or a likelihood of damage (see *BMW* at paras 35 and 36).

(3) Has Diageo Established Its Passing Off Claim?

- (a) *Is the trade dress or get-up associated with Diageo's CAPTAIN MORGAN rum bottle, labels, and character a valid and enforceable trademark?*

[77] As noted by the Federal Court of Appeal in *Cheung* and in *Kirkbi FCA*, the trademarks asserted by Diageo must be valid and enforceable, whether registered or unregistered, in order to establish a contravention of subsection 7(b) of the *Act*.

[78] Diageo claims that its trade dress or get-up associated with its CAPTAIN MORGAN rum bottle, labels, and character is a valid and enforceable trademark under the *Act* since they are a “distinguishing guise” as defined in the *Act* and fall within the definition of “trade-mark”. For purposes of the *Act*:

trade-mark means

- (a) a mark that is used by a person for the purpose of distinguishing or so as to distinguish goods or services manufactured, sold, leased, hired or performed by him from those manufactured, sold, leased, hired or performed by others,

(b) a certification mark,

(c) a distinguishing guise, or

(d) a proposed trade-mark;

marque de commerce Selon le cas :

a) marque employée par une personne pour distinguer, ou de façon à distinguer, les produits fabriqués, vendus, donnés à bail ou loués ou les services loués ou exécutés, par elle, des produits fabriqués, vendus, donnés à bail ou loués ou des services loués ou exécutés, par d'autres;

b) marque de certification;

c) signe distinctif;

d) marque de commerce projetée.

<i>distinguishing guise</i> means	<i>signe distinctif</i> Selon le cas :
(a) a shaping of goods or their containers, or	a) façonnement de produits ou de leurs contenants;
(b) a mode of wrapping or packaging goods	b) mode d'envelopper ou emballer des produits,
the appearance of which is used by a person for the purpose of distinguishing or so as to distinguish goods or services manufactured, sold, leased, hired or performed by him from those manufactured, sold, leased, hired or performed by others;	dont la présentation est employée par une personne afin de distinguer, ou de façon à distinguer, les produits fabriqués, vendus, donnés à bail ou loués ou les services loués ou exécutés, par elle, des produits fabriqués, vendus, donnés à bail ou loués ou des services loués ou exécutés, par d'autres.

[79] I agree with Diageo that there is no requirement that a distinguishing guise must be registered under the *Act* in order to be a valid trademark enforceable as against Heaven Hill. Diageo's trade dress or distinguishing guise is embodied in the bottles of Original Spiced Rum, 100, Silver Spiced Rum, Gold, Dark, and White varieties of CAPTAIN MORGAN rum which bear a fanciful depiction of Sir Henry Morgan located generally at the center of the label, the CAPTAIN MORGAN brand name above the CAPTAIN MORGAN character with the rum variety below it, a classic sailing ship in the background, the bottle caps, the collar labels bearing the CAPTAIN MORGAN brand, and the colour scheme and design of the main label. All of these elements constitute the distinguishing guise of the CAPTAIN MORGAN rum products within the definition of a distinguishing guise under the *Act* and, accordingly, are a valid and enforceable trademark under the *Act*.

[80] In addition, none of Heaven Hill's affirmative defences are, for the reasons stated above, such that Diageo cannot also assert and enforce its ten registered trademarks as against Heaven Hill and the ADMIRAL NELSON'S rum products. Each of Diageo's ten trademarks is a valid registration under the *Act* and they, as well as the distinguishing guise of the CAPTAIN MORGAN rum products, can be enforced against Heaven Hill by way of this action.

(b) *Goodwill*

[81] Diageo must establish goodwill in respect of the distinctiveness of its CAPTAIN MORGAN rum products (see *Kirkbi* at para 67). Although goodwill is not defined in the *Act*, the Supreme Court of Canada has described the goodwill associated with a trademark as being: "the positive association that attracts customers towards its owner's wares or services rather than those of its competitors" (see: *Veuve Clicquot* at para 50). The evidence adduced by Diageo at trial shows there is considerable goodwill associated with the CAPTAIN MORGAN brand and the current manifestation of its associated trade dress. This is most evident by the quantity of sales of CAPTAIN MORGAN rum products, especially in relation to other rum producers and their rum products in Canada. Mr. Kourtis' testimony was that approximately 200 million bottles of CAPTAIN MORGAN rum have been sold in Canada since 1994, with retail sales of roughly \$5 billion, and that about 20% to 23% of Diageo's total sales of spirits are attributable to CAPTAIN MORGAN. Mr. Kourtis further testified that: approximately 12 million bottles of CAPTAIN MORGAN rum and over 7 million bottles of CAPTAIN MORGAN Original Spiced Rum are sold annually in Canada; this is roughly equivalent to \$320 million in retail sales annually in Canada, of which approximately \$220 million is attributable to sales of CAPTAIN MORGAN Original Spiced Rum; CAPTAIN MORGAN was the best-selling rum in Canada in

2016, with some 32% share of the market for rum products, ahead of other well-known brands of rum such as BACARDI, LAMB'S and APPLETON ESTATE; and that, approximately 71.9% of the spiced rum market share in Canada is held by CAPTAIN MORGAN spiced rums.

[82] The goodwill associated with the CAPTAIN MORGAN brand is also evident by the extensive promotion, marketing, and advertising of CAPTAIN MORGAN. In the last 15 years or so, Diageo has spent about \$150 million for promoting, marketing, and advertising its CAPTAIN MORGAN rum products, and within the last year roughly \$17 million was expended.

[83] In view of this evidence, there is significant goodwill associated with the CAPTAIN MORGAN brand.

(c) *Misrepresentation*

[84] As to the second element of a passing-off claim, namely the deception of the public due to a misrepresentation, it bears repetition to note here that the misrepresentation creating confusion in the public may be willful, negligent, or careless. Although Diageo pointed to some evidence and argued at trial that Heaven Hill intentionally or deliberately set out to mimic or copycat the trade dress of the CAPTAIN MORGAN rum products when it refreshed the ADMIRAL NELSON'S packaging, I find this evidence does not clearly or cumulatively establish any such intention on the part of Heaven Hill. The occasional references to CAPTAIN MORGAN in the documentation surrounding the redesign of the ADMIRAL NELSON'S bottle and labels and the testimony at trial, notably that of Hanna Venhoff, Heaven Hill's Senior Brand Manager for its rum portfolio, do not, in my view, establish on a balance of probabilities that

Heaven Hill intentionally or willfully set out to mimic or copycat the trade dress of the CAPTAIN MORGAN rum products. As the Court in *Mr Submarine Ltd v Emma Foods Ltd*, [1976] OJ No 806 at para 6, 34 CPR (2d) 177 (Ont H Ct J), remarked, citing *Baker et al v Master Printers Union of New Jersey* (1940), 47 USPQ 69 at 72: “Of course, few would be stupid enough to make exact copies of another's mark or symbol. It has been well said that the most successful form of copying is to employ enough points of similarity to confuse the public with enough points of differences to confuse the courts.”

[85] What the evidence does show, however, on a balance of probabilities, is that a casual or ordinary purchaser of rum products would likely be confused as to the source of ADMIRAL NELSON'S rum products as currently packaged and sold in Canada. At trial, Diageo tendered the expert report of Dr. Ruth Corbin who designed and oversaw the implementation of a consumer survey of 629 Canadian adults of legal drinking age, residing in four Canadian cities, who had recently purchased a bottle of rum. Heaven Hill's pre-trial motion to exclude this survey as evidence at trial was dismissed by an Order of the Court on January 26, 2017.

[86] The survey's mandate was two-fold: one, to assess general impressions of ADMIRAL NELSON'S Premium Spiced Rum; and two, to measure the extent, if any, to which purchasers of rum mistakenly infer that a bottle of ADMIRAL NELSON'S Premium Spiced Rum originates from the same source as CAPTAIN MORGAN rum. The in-person mall-intercept survey was conducted during July and August, 2016, in shopping malls in Moncton, Montreal, Toronto, and Edmonton, cities chosen to provide geographical coverage across Canada as well as to allow for a comparison between cities where ADMIRAL NELSON'S Premium Spiced Rum is available

for sale (i.e., Moncton and Edmonton) and cities where it is not (i.e., Montreal and Toronto). A total of 629 persons participated in the study; 413 participants were shown a bottle of ADMIRAL NELSON'S Premium Spiced Rum (the Test Group), a picture of which is shown below, while 216 were shown a bottle of SAILOR JERRY Spiced Rum (the Control Group) which is also shown below:



[87] Upon review and analysis of the survey results, Dr. Corbin concluded and testified at trial that there is statistically significant evidence that CAPTAIN MORGAN rum is spontaneously and almost exclusively brought to mind by the ADMIRAL NELSON'S Premium Spiced Rum bottle. Among the ADMIRAL NELSON'S Test Group, 21% noted similarity between ADMIRAL NELSON'S Premium Spiced Rum and CAPTAIN MORGAN rum (but did not reference the two brands as coming from the same source elsewhere in the survey). Dr. Corbin further concluded and testified that there is statistically significant evidence of misapprehension of source, meaning that rum purchasers are likely to mistakenly infer that a bottle of ADMIRAL

NELSON'S Premium Spiced Rum originates from the same source as CAPTAIN MORGAN rum. In total, 23% of the 413 participants in the Test Group had a misapprehension as to source (whereas only 7% of the 216 participants in the Control Group mistakenly inferred that SAILOR JERRY Spiced Rum originates from the same source as CAPTAIN MORGAN). The most frequent reason given by the Test Group participants for inferring the same source as CAPTAIN MORGAN was the character displayed on the label. However, Dr. Corbin also noted during her testimony that more than just the character on the bottle was a source of confusion, testifying that:

...one can conclude with 95 per cent confidence that the inference of a same source between these two bottles, Admiral Nelson and Captain Morgan, arises from some elements on the Admiral Nelson's bottle as opposed to the things we have controlled for, the placebo elements we have controlled for, random guessing or other irrelevant elements.

[88] In response to Dr. Corbin's survey and testimony, Heaven Hill tendered an expert report from Mr. Christian Bourque in which he critiqued Dr. Corbin's survey methodology and the manner in which the survey results were coded and reported. In particular, Mr. Bourque identified three problems with Dr. Corbin's report: (1) the use of pre-coded answers for one of the questions; (2) a failure to consider issues with social desirability in designing the survey and analysing the results; and (3) the poor choice of a control bottle.

[89] As a first step in his review of Dr. Corbin's report, Mr. Bourque provided Dr. Corbin's raw data to his coding team and asked them to code the data and attempt to reproduce Dr. Corbin's results. Mr. Bourque explained the problems with mall surveys since there is a chance of a non-statistical error because people who might be surveyed at a mall are not representative

of the Canadian public. Mr. Bourque also explained a phenomenon called “response bias” where human beings will naturally try to adapt to the situation that they are in and will sometimes provide answers they think will appease an interviewer. Mr. Bourque further testified as to his concerns with using SAILOR JERRY as the control bottle because the character on the label is a female hula dancer.

[90] Mr. Bourque criticized one of the questions in Dr. Corbin’s mall survey because it did not allow the interviewer to input a participant’s actual response – the interviewer had to choose a pre-coded option that matched the participant’s response. The problem with these types of questions, according to Mr. Bourque, is that interviewers have a natural tendency to select the pre-coded response because it is easier, simpler, and faster, and the interview could have been improved by allowing open-ended coding, or by audio or video recording of the responses. He also explained that some of the questions asked the same thing and this might cause a survey participant to provide an answer to appease the interviewer, with the result that this would not be a true first impression.

[91] Based on his calculations, Mr. Bourque testified that 16% of people interviewed were confused as to the source of the ADMIRAL NELSON’S bottle, as opposed to Dr. Corbin’s total of 23%. Mr. Bourque attributed this discrepancy to the fact that the bulk of the responses from the question which had pre-coded answers could not be verified. Mr. Bourque provided the following conclusions after reviewing Dr. Corbin’s survey report:

Four conclusions are basically based on the difficulty of being a social scientist ...our methodologies all have certain flaws, and even if the mall intercept method has been accepted in the industry as a valid method, its shortcomings, like any other method, should

make us a bit more prudent when interpreting the results. ...we then have the issue of tests being different in markets where Admiral Nelson's is present versus not present, which I think affects the results altogether, which is why I think it is preferable throughout to present the results separately for Montréal, Toronto and Edmonton, Moncton.

The control condition... is an issue for me because it is so strikingly remote from the other two brands that are in dispute that I don't know if it actually qualifies as the best or as a good control in the present circumstance. Again, I think the main issue I have is it is hard to miss or to misinterpret a female as being the same as a male in the context of looking at a package. And also my main issue again comes back to the actual interpretation of the results that are actually made. ...I am not disputing that a lot of effort was put into making that test the best possible because that's what we all strive for as social scientists, but if I look at a question where I don't have the answers, I have people precoding things into categories, it is difficult to be confident that what's calculated at the end as being those being sort of misled or not as to the source actually corresponds to what I think would be the best test possible.

[92] I dismissed Heaven Hill's pre-trial motion to exclude Dr. Corbin's report because, upon review and consideration of her report and upon hearing and reading the parties' submissions on the motion, I was satisfied the survey report met the four requirements emanating from *R v Mohan*, [1994] 2 SCR 9, [1994] SCJ No 36; namely, that the report was relevant to the issues which would be raised at trial; it was necessary to assist the trier of fact at trial; its admission into evidence would not run afoul of an exclusionary rule; and Dr. Corbin is a properly qualified expert (see: *White Burgess Langille Inman v Abbott and Haliburton Co*, 2015 SCC 23, [2015] 2 SCR 182, as to the role and scope of qualified experts and their testimony). Both Dr. Corbin and Mr. Bourque were qualified by the Court as experts in the field of survey research and statistical analysis without objection at trial.

[93] It is well-established that survey evidence, such as that contained in Dr. Corbin's report, can be accepted as evidence to assist a judge's task in assessing consumer confusion about products in the marketplace (see, e.g.: *Sun Life Assurance Co of Canada v Sun Life Juice Ltd*, [1988] OJ No 1114 at paras 19 to 22, 65 OR (2nd) 496 (Ont H Ct J)). As noted by the Supreme Court of Canada in *Masterpiece*:

93 Surveys...have the potential to provide empirical evidence which demonstrates consumer reactions in the marketplace — exactly the question that the trial judge is addressing in a confusion case. This evidence is not something which would be generally known to a trial judge, and thus unlike some other expert evidence, it would not run afoul of the second *Mohan* requirement that the evidence be necessary. However, the use of survey evidence should still be applied with caution.

94 The use of consumer surveys in trade-mark cases has been recognized as valid evidence to inform the confusion analysis. As Binnie J. noted in *Mattel*, often the difficulty with survey evidence is whether it meets the first of the *Mohan* requirements: relevance. At para 45, he further divided the question of relevance into two sub-issues:

As to the usefulness of the results, assuming they are elicited by a relevant question, courts have more recently been receptive to such evidence, provided the survey is both reliable (in the sense that if the survey were repeated it would likely produce the same results) and valid (in the sense that the right questions have been put to the right pool of respondents in the right way, in the right circumstances to provide the information sought).
[Emphasis added.]

[94] I am satisfied that the Corbin report is reliable and valid despite the criticisms of the report raised by Mr. Bourque's testimony and his report, and despite Dr. Corbin's acknowledgement during her testimony that one survey respondent's answer was mischaracterized as a positive identification of CAPTAIN MORGAN when faced with a bottle

of ADMIRAL NELSON'S Spiced Rum. Even if one accepts Mr. Bourque's view that only 16% of people interviewed were confused as to the source of the ADMIRAL NELSON'S bottle as opposed to Dr. Corbin's total of 23%, and even if one applies the statistical margin of error of 5% to those percentages because the Corbin survey has a confidence level of 95%, the percentage of people interviewed who were confused as to the source of the ADMIRAL NELSON'S bottle is not insignificant, being somewhere between 11% and 28% having regard to the 5% margin of error. Indeed, the rate of confusion Courts have previously found to be sufficient to establish a likelihood of confusion ranges from: 4.8% to 8.2% in *Walt Disney Productions v Triple Five Corp*, [1994] AJ No 196 at para 44, 53 CPR (3d) 129 (Alta CA); 11% in *New Balance Athletic Shoes Inc v Matthews*, [1992] TMOB No 358, 45 CPR (3d) 140 (TMOB); and 13.5% in *Kirkbi AG v Ritvik Holdings Inc*, 2002 FCT 585 at para 128, 20 CPR (4th) 224, aff'd without discussion of this issue, 2003 FCA 297, [2003] FCJ No 1112, aff'd 2005 SCC 65, [2005] 3 SCR 302.

[95] In view of the evidence adduced at trial, and my findings above pertaining to Diageo's passing off claim, I find that Diageo has established, on a balance of probabilities, that Heaven Hill has contravened subsection 7(b) of the *Act* by directing public attention to its ADMIRAL NELSON'S rum products in Canada in such a way as to cause or be likely to cause confusion between its rum products and Diageo's trademarks.

[96] Unlike subsection 7(b) of the *Act*, subsection 7(c) uses the phrase "pass off" and it is focused instead on substitution as opposed to confusion. In *MacDonald v Vapor Canada Ltd*, [1977] 2 SCR 134 at 147, 66 DLR (3d) 1, the Supreme Court of Canada remarked that:

Section 7(c) is a curious provision to be armed with a civil sanction by way of damages when one already exists in the ordinary law of contract. The provision refers to substitution of other goods for those ordered or requested, but there is always the right to reject upon discovery of the substitution, and if the substituted goods are knowingly accepted there would appear to be no relief. If s. 7(c) purports to give additional relief even if the substituted goods are knowingly accepted, where are the damages? Or does the provision envisage damages arising from failure to deliver the proper goods in time? If so, there is the usual remedy for breach of contract. I can see s. 7(c) in the context of a regulatory regime subject to supervision by a public authority, but its presence under the sanction of a private civil remedy merely emphasizes for me federal intrusion upon provincial legislative power.

[97] In *Distrimic Inc v Dispill Inc*, 2006 FC 1229, 301 FTR 52, this Court noted that:

[67] The cause of action described at subsection 7(c) of the Trade-marks Act is a codification of the common law action of "passing off by substitution" (*Fox on Canadian Law of Trade-marks and Unfair Competition*, above, at page 4-15)

[68] An action based on subsection 7(c) of the Trade-marks Act must satisfy the following criteria:

[...] Passing off by substitution will be established where, in answer to an order for what plainly appears to be the plaintiff's goods, the defendant, without any explanation of the circumstances, supplies corresponding goods of his own or someone else's manufacture without any enquiry whether the plaintiff's goods or merely equivalent goods are required. In order, however, to found a case of passing off by substitution it must be clear that the words in which the order was given referred to goods of the plaintiff and nobody else. It must be clear that proper notice was given to the retailer as to the articles desired and that something was substituted for that which was ordered. It is not an improper substitution of goods or services if the purchaser is told that the goods or services he asked for are not available and agrees to take others in their place. (*Fox on Canadian Law of Trade-marks and Unfair Competition*, above, at page 4-16)

[98] Similarly, in *Positive Attitude Safety System Inc v Albian Sands Energy Inc*, 2005 FCA 332 at para 34, [2005] FCJ No 1731, the Federal Court of Appeal said that: “In order for there to be a violation of paragraph 7(c), there must be trade involving trade-marks. Specifically, there must be a substitution of one trader’s goods ‘as and for those ordered or requested.’”

[99] In this case, there was no evidence led at trial that Heaven Hill’s ADMIRAL NELSON’S rum products were substituted “as and for those ordered or requested.” Diageo’s claim that Heaven Hill has contravened subsection 7(c) of the *Act* is without any factual foundation and, consequently, must fail.

[100] In short, the evidence adduced by Diageo at trial, notably the Corbin survey report, supports a finding that there is, on a balance of probabilities, confusion or deception of the public due to Heaven Hill’s misrepresentation as to the source of its ADMIRAL NELSON’S Spiced Rum. This finding also extends to each of the other varieties of ADMIRAL NELSON’S rum products, namely, Premium Dark, Premium Silver, Premium Gold, and Premium Coconut, because, save for some of the words on and the colouring of the ADMIRAL NELSON’S labels and the colour of the rum inside the bottles, each variety utilizes the same Admiral Nelson character with a ship behind the character and the same shaped bottle. Accordingly, I conclude that there would likely be confusion in a consumer’s mind as to the source of the ADMIRAL NELSON’S rum products. It is readily conceivable in this case that an ordinary or casual purchaser of rum products, somewhat in a hurry, could be caught off guard when reaching for what he or she perceives to be a bottle of CAPTAIN MORGAN rum but which is in fact a bottle of ADMIRAL NELSON’S rum.

(d) *Damages*

[101] The third prong of a claim for passing off requires Diageo to establish that it has suffered damages or potentially could suffer damage by the existence of the ADMIRAL NELSON'S rum products in the marketplace for rum products. Heaven Hill submits there is no evidence of damages sustained by Diageo by reason of the ADMIRAL NELSON'S rum products and, alternatively, states that any evidence of damages is speculative. According to Heaven Hill, proof of actual or likely damage is necessary, and a bifurcation order does not relieve a plaintiff from the obligation to establish damage or a likelihood of damage.

[102] For its part, Diageo points to the decision in *Sadhu Singh Hamdard Trust v Navsun Holdings Ltd.*, 2016 FCA 69 at para 31, [2016] FCJ No 239, where the Federal Court of Appeal stated: "...the presence of the requisite damages to found a claim in passing off can be established through proof of a loss of control over reputation, image or goodwill." According to Diageo, Heaven Hill's goal is to obtain 20% to 25% of the CAPTAIN MORGAN business; to achieve this goal Diageo says Heaven Hill wants to sell its rum products at the expense of CAPTAIN MORGAN by creating confusion. Moreover, Diageo notes the evidence provided by Mr. Shapira that, after Heaven Hill relaunched the ADMIRAL NELSON'S brand in 2013, it had an issue with the liquid inside some of its bottles of Amber and Premium Dark rums changing colour, and that this would inevitably cause damage to the CAPTAIN MORGAN reputation, image, or goodwill.

[103] With respect to the likelihood or potential for damages to ground a passing off claim, the Federal Court of Appeal stated the following in *Remo Imports Ltd v Jaguar Cars Ltd*, 2007 FCA 258, [2007] FCJ No 999:

[90] ...These authorities, taken together with the fact that damages are assessed on the standard of likelihood in other trademark matters, lead me to conclude that the third component of a passing-off action requires proof of actual damage or the likelihood of damage: see *Veuve Clicquot Ponsardin*, previously cited, at paragraphs 37-38, maintaining the standard of likelihood for both the issues of confusion and depreciation. Accordingly, when Gonthier J. used the term “potential damage” in *Ciba-Geigy Canada Ltd.*, I believe that he used the phrase to mean damages that had not actually occurred. He did not set the standard for establishing damages in actions of passing off as anything lower than proof of the likelihood of damages.

[104] There is no evidence in this case that Diageo has suffered any *actual* damages as a result of the distribution and sale of ADMIRAL NELSON’S rum products in Canada. Diageo provided no direct evidence to show, for example, that its sales of CAPTAIN MORGAN rum products have declined in any appreciable or direct way since the relaunch of the ADMIRAL NELSON’S brand in Canada in late 2013. There is, however, as discussed above, evidence as to confusion in some consumers’ minds as to the source of the ADMIRAL NELSON’S rum products being that of CAPTAIN MORGAN. This being so, there is a likelihood that these confused consumers may mistakenly purchase ADMIRAL NELSON’S rum products and consequently not purchase CAPTAIN MORGAN rum products, thereby resulting in lost sales for Diageo. In my view, it is reasonable to presume that this sort of damage may have actually occurred subsequent to the repackaging of the ADMIRAL NELSON’S rum products in 2013 or could potentially occur in the future.

[105] Additionally, the requisite damages to found a claim in passing off can be established, as Diageo says, by showing “a loss of control over reputation, image or goodwill.” The fact Heaven Hill had an issue with the liquid inside some of its bottles of ADMIRAL NELSON’S rums changing colour after it relaunched the brand in 2013, and in view of the evidence as to confusion in some consumers’ minds as to the source of the ADMIRAL NELSON’S rum products, this is something which potentially could cause damage to the CAPTAIN MORGAN reputation, image, or goodwill.

[106] In summary, the evidence shows that Diageo has established its claim that Heaven Hill has passed off its ADMIRAL NELSON’S rum products as those of Diageo’s CAPTAIN MORGAN rum products. There is goodwill associated with the CAPTAIN MORGAN rum products, there is a likelihood of confusion or misrepresentation as to the source of the ADMIRAL NELSON’S rum products contrary to subsection 7(b) of the *Act*, and there is a likelihood of potential damage being suffered by Diageo as a result of the ADMIRAL NELSON’S rum products being offered for sale in Canada.

G. *Does Heaven Hill’s use of its character or label trademarks in association with ADMIRAL NELSON’S rum products constitute an infringement of Diageo’s exclusive right to use its registered trademarks, contrary to section 20 of the Act?*

(1) Pertinent Law

[107] By virtue of section 19 of the *Act*, a plaintiff’s registered trademark provides it with the exclusive right, throughout Canada, to use its mark in association with the wares and services as described in the registration. Infringement of that right occurs if a person uses a trade name or a

trademark which causes confusion with a plaintiff's registered mark. A trademark or trade name is confusing with another trademark or trade name if its use would cause confusion in the manner and circumstances described in section 6 of the *Act*. Furthermore, paragraph 20(1)(a) of the *Act* stipulates that:

<p>20 (1) The right of the owner of a registered trade-mark to its exclusive use is deemed to be infringed by any person who is not entitled to its use under this Act and who</p> <p>(a) sells, distributes or advertises any goods or services in association with a confusing trade-mark or trade-name;</p>	<p>20 (1) Le droit du propriétaire d'une marque de commerce déposée à l'emploi exclusif de cette dernière est réputé être violé par une personne qui est non admise à l'employer selon la présente loi et qui :</p> <p>a) soit vend, distribue ou annonce des produits ou services en liaison avec une marque de commerce ou un nom commercial créant de la confusion;</p>
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[108] The *Act* provides the following definition of "confusing" in section 2:

<p>confusing, when applied as an adjective to a trade-mark or trade-name, means a trade-mark or trade-name the use of which would cause confusion in the manner and circumstances described in section 6</p>	<p>créant de la confusion Relativement à une marque de commerce ou un nom commercial, s'entend au sens de l'article 6.</p>
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[109] In determining whether trademarks or trade names are confusing, subsection 6(5) of the *Act* mandates the Court to have regard to:

<p>6 (5) ...all the surrounding circumstances including</p> <p>(a) the inherent</p>	<p>6 (5) ... toutes les circonstances de l'espèce, y compris :</p> <p>a) le caractère distinctif</p>
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distinctiveness of the trade-marks or trade-names and the extent to which they have become known;	inhérent des marques de commerce ou noms commerciaux, et la mesure dans laquelle ils sont devenus connus;
(b) the length of time the trade-marks or trade-names have been in use;	b) la période pendant laquelle les marques de commerce ou noms commerciaux ont été en usage;
(c) the nature of the goods, services or business;	c) le genre de produits, services ou entreprises;
(d) the nature of the trade; and	d) la nature du commerce;
(e) the degree of resemblance between the trade-marks or trade-names in appearance or sound or in the ideas suggested by them.	e) le degré de ressemblance entre les marques de commerce ou les noms commerciaux dans la présentation ou le son, ou dans les idées qu'ils suggèrent.

[110] The Supreme Court of Canada has stated that, although listed as the last factor in subsection 6(5), the degree of resemblance between the trademarks or trade names is the factor which is “often likely to have the greatest effect on the confusion analysis” (*Masterpiece* at para 49). Furthermore, all the surrounding circumstances must be taken into account, and the statutory list of circumstances is not exhaustive; different circumstances will be given different weight in a context-specific assessment (see: *Mattel* at para 54). Surrounding circumstances may include a history of competition between the parties without there being evidence of actual confusion (*Pink Panther Beauty Corp v United Artists Corp*, [1998] 3 FC 534 at para 36, [1998] FCJ No 441 (FCA); *Mr Submarine Ltd v Amandista Investments Ltd*, [1987] FCJ No 1123 at para 34, 19 CPR (3d) 3 (FCA) [*Mr Submarine*]).

[111] Evidence of actual confusion is a relevant surrounding circumstance, but such evidence is not necessary. The Court can consider the lack of evidence of actual confusion when assessing the likelihood of confusion (see: *Christian Dior, SA v Dion Neckwear Ltd*, 2002 FCA 29, at para 19, [2002] 3 FCR 405), and the length of time that there has been no evidence of actual confusion may also be a factor (see: *Mr. Submarine* at para 34). An adverse inference may be drawn from the lack of evidence of actual confusion in circumstances where it would readily be available if the allegation of likely confusion was justified (*Mattel* at para 55). Confusion is generally assessed as of the date of the hearing, though the confusion would usually be demonstrated over a period of time (see: *Alticor Inc v Nutravite Pharmaceuticals Inc*, 2005 FCA 269 at para 16, 257 DLR (4th) 60).

[112] When evaluating confusion under the *Act*, the Supreme Court of Canada has stated that the applicable test is that of the somewhat hurried consumer with imperfect recollection of a plaintiff's mark who is ordinarily cautious but does not pause to examine closely the similarities or differences between the two trademarks or trade names (see: *Veuve Clicquot* at paras 20 and 33; see also *Masterpiece* at paras 40-41, and *Mattel* at paras 56-58). This requires the Court to consider whether, as a matter of first impression, the "casual consumer somewhat in a hurry" who sees the ADMIRAL NELSON'S trademark, when that consumer has no more than an imperfect recollection of the CAPTAIN MORGAN trademarks, would be likely to be confused in thinking that an ADMIRAL NELSON'S rum product was the same source as a CAPTAIN MORGAN rum product.

[113] The competing marks must be considered in their totality and not dissected or assessed in a side by side comparison as a casual consumer in a hurry would not do so (*Masterpiece*, at para 40). The Supreme Court of Canada has stated that with more expensive purchases more care will be taken by a consumer, but the likelihood of confusion is still based on the consumer's first impression when encountering the marks or names for the first time (*Masterpiece*, at para 67). A plaintiff bears the onus to demonstrate a likelihood of confusion on a balance of probabilities; whether there exists a likelihood of confusion is largely a question of fact (*Veuve Clicquot*, at para 14).

[114] Before turning to whether Diageo has established a likelihood of confusion, the general principles noted by the Federal Court of Appeal in *Philip Morris Products SA v Marlboro Canada Ltd*, 2012 FCA 201 at paras 58 to 59, 103 CPR (4th) 259, leave to appeal to SCC refused, [2012] SCCA No 413 [*Philip Morris*] warrant mention. In *Philip Morris*, Justice Gauthier noted that when confusion is alleged in respect of several different marks, the Court should make an individual comparison in respect of each rather than make an analysis based on a composite of all the marks (see also: *Masterpiece* at paras 47-48). Justice Gauthier further remarked that:

- A mark symbolises a linkage between a product and its source. When assessing the likelihood of confusion, the focus is on such mental link in the head of the mythical consumer (*Mattel, Inc. v. 3894207 Canada Inc.*, 2006 SCC 22, [2006] 1 S.C.R. 772 [*Mattel*]). The full factual context including the factors set out in subsection 6(5) of the *Act* must be considered.
- It is not relevant that consumers are “unlikely to make choices based on first impressions”. It is an error to discount the likelihood of confusion by considering what actions the consumer might take after encountering the mark in the market place (*Masterpiece Inc.*, paragraphs 71, 73 and 74).

- Confusion as to the source (no need for it to be precisely identified) will arise if the public (mythical consumer) would likely infer that the source of the two products (senior mark or junior mark) is the same (this includes in appropriate circumstances associated sources such as licensor and licensee).
- Steps taken to avoid confusion are irrelevant in the context of an infringement action pursuant to section 20 of the *Act* (David Vaver, *Intellectual Property Law: Copyright, Patents, Trade – marks*, 2nd ed. (Toronto: Irwin Law, 2011) [Vaver] at page 533, *Pink Panther Beauty Corp. v. United Artists Corp.*, [1998] 3 F.C. 534 (C.A.).
- Proof of actual confusion or the absence of such confusion over a long period of time is a very weighty factor that must be considered as part of the surrounding circumstances pursuant to subsection 6(5) of the *Act* (*Mr. Submarine Ltd. v. Amandista Investments Ltd.*, (1987) 19 C.P.R. (3d) 3, [1988] 3 F.C. 91 (C.A.) [*Mr. Submarine*], at paragraph 34, *Mattel*, at paragraph 55).

[115] Diageo alleges infringement of ten design trademark registrations by Heaven Hill, contrary to section 20 of the *Act*. These registrations have been reproduced above at the outset of these reasons. According to Diageo, Heaven Hill's sale, distribution, and advertising in Canada of alcoholic beverages in association with the ADMIRAL NELSON'S character and bottle labels constitute an infringement of its Trade-mark Registration Nos. TMA298,005, TMA409,540, TMA445,025, TMA676,015, TMA676,1 19, TMA846,828, TMA846,829, TMA848,087, TMA863,667, and TMA864,267, contrary to paragraph 20(1)(a) of the *Act*. Diageo contends that there is a likelihood of confusion between the ADMIRAL NELSON'S character and bottle labels and Diageo's ten trademarks.

(2) Inherent Distinctiveness and Fame

[116] For the reasons noted above with respect to its passing off claim, Diageo claims the CAPTAIN MORGAN character and bottle labels have inherent and acquired distinctiveness, and the surrounding circumstances are such that the CAPTAIN MORGAN character as depicted in its trademarks is a famous and iconic brand. Heaven Hill contends that the surrounding circumstances of this case are such that the lack of actual confusion tips the balance in favour of finding no likelihood of confusion. Heaven Hill notes that ADMIRAL NELSON'S rum products and CAPTAIN MORGAN rum products have both been sold in the United States since 1998 and in Canada since about 2003, and despite the lengthy period of time of concurrent use of the respective trademarks in Alberta and in the United States, Diageo led no evidence of actual confusion. According to Heaven Hill, the absence of actual confusion should therefore be given great weight.

[117] Heaven Hill concedes, and I agree, that the inherent distinctiveness of the CAPTAIN MORGAN trademarks and the extent to which they have become known are such that this factor favours Diageo; according to Heaven Hill, however, this is not necessarily determinative of whether there is a likelihood of confusion and there is some inherent distinctiveness in the ADMIRAL NELSON'S trademark even though it has not become known to the extent to which CAPTAIN MORGAN has become known.

(3) Length of Time in Use

[118] As to the length of time the trademarks or trade names have been in use, Diageo notes that the first CAPTAIN MORGAN trademark dates back more than 50 years. Diageo further notes that TMA676,015, issued on November 1, 2006, and an immaterial variant of this depiction of CAPTAIN MORGAN has been used since at least as early as the late 1990s. Since the current ADMIRAL NELSON'S character was only launched in Canada in 2013 and the previous ADMIRAL NELSON'S character was only used since some time prior to 2011 when Heaven Hill acquired the ADMIRAL NELSON'S brand, Diageo says the length of time clearly favours it. Heaven Hill notes that ADMIRAL NELSON'S rum products bearing the old spiced rum label on bottles have been sold in Canada since 2003, and ADMIRAL NELSON'S rum products bearing the refreshed labels on bottles have been sold in Canada since late 2013. Heaven Hill further notes that CAPTAIN MORGAN rum products bearing the trademarks depicted in Registration Nos. TMA846,828, TMA846,829, TMA848,087, and TMA863,667, were launched starting in about 2011 and 2012, and that the trademarks depicted in TMA676,015 and TMA676,119 appeared on CAPTAIN MORGAN rum products from about 2005 to 2012.

[119] In my view, the length of time the trademarks have been in use in this case favours Diageo. There is evidence that the CAPTAIN MORGAN character trademark depicted on Diageo's rum bottles, more or less in its current emanation, dates back at least to July 1998 when Revenue Canada approved this label for spiced rum with the CAPTAIN MORGAN character's left foot resting on a barrel:



(4) Nature of the Goods and the Trade

[120] As to the nature of the goods and the trade, Diageo maintains, in view of *Everex Systems, Inc v Everdata Computer Inc* [1992] FCJ No 701, 44 CPR (3d) 175 (FCTD), that where the goods covered by a plaintiff's trademark registration are of the same general class as the goods in association with which the defendant uses the impugned trademark, the issue of whether the goods are in fact sold in the same channels is irrelevant; what matters is that they could eventually be sold in the same channels. Diageo notes that the parties' rum products are all sold in the \$24.00 to \$29.00 price range and, while the targeted demographic for CAPTAIN MORGAN rum is those of legal drinking age up to 29 years old as well as those in the 40 to 49 year old range in Atlantic Canada, millions of bottles of CAPTAIN MORGAN are sold to consumers outside of these demographics. Diageo further notes that rum products are often displayed on outside walls of liquor stores having long sight-lines; consequently, both CAPTAIN MORGAN rum products and ADMIRAL NELSON'S rum products can be seen from afar and this is often the consumer's "first impression". Heaven Hill acknowledges that the goods in dispute are the same class and go through similar channels of trade.

[121] The nature of the goods and the trade tends to be a somewhat neutral factor in this case inasmuch as the parties each sell various varieties of rum products through similar channels of trade as noted earlier. However, because Diageo's rum products are sold throughout Canada and Heaven Hill's rum products are sold in only three provinces, this factor tends to favour Diageo since its sales are national in scope, while those of Heaven Hill are limited to only three provinces.

(5) Degree of Resemblance

[122] As to the degree of resemblance, Diageo says Heaven Hill seeks to defend its use of a confusing image by claiming that its character depicts a "famous" historical character, Vice Admiral Horatio Lord Nelson; but in Diageo's view there is no evidence as to the extent to which average consumers of rum in Canada are even aware of Admiral Nelson. Additionally, Diageo says Heaven Hill's depiction of Admiral Nelson on its label as a young pirate-like character with an eye patch is so dissimilar to the actual historical character – who is older with grey hair, different attire, wearing a hat, and having lost an arm – that this further reflects Heaven Hill's true intentions of trading upon Diageo's goodwill and confusing consumers.

[123] Heaven Hill submits that the visual, aural and conceptual similarities of the respective marks must normally be assessed by reference to the overall impressions created by the marks, bearing in mind their distinct and dominant components, and it is only when all other components of a composite mark are negligible that it is permissible to make the comparison solely on the basis of the dominant elements. In Heaven Hill's view, when one looks at any of the ADMIRAL NELSON'S labels, the ADMIRAL NELSON'S word trademark directs an

association with Vice Admiral Horatio Lord Nelson, a British naval officer in the late 18th and early 19th centuries. Heaven Hill says this causal connection to the historical figure is reinforced by a fanciful depiction of the Admiral Nelson character wearing attire which was modeled after his British Navy attire. According to Heaven Hill, the conceptual idea presented by the ADMIRAL NELSON'S labels is that of an historical naval character wearing historical attire, whereas that presented by CAPTAIN MORGAN is a rum bottle label bearing a pirate in period or historical attire, including a hat, armed with weaponry used by pirates, with the left leg raised on a barrel symbolizing the pirate's bounty.

[124] In Heaven Hill's view, there is no resemblance in the appearance of the trademarks associated with ADMIRAL NELSON'S and CAPTAIN MORGAN when considered in their totality, and the only commonality is that the Heaven Hill composite mark bears a fanciful depiction of an historical figure. Heaven Hill points to various aspects of the depiction of Admiral Nelson on its ADMIRAL NELSON'S bottle labels to differentiate its character from Diageo's CAPTAIN MORGAN character: its Admiral Nelson character is standing with his legs apart and a raised left arm holding a tankard; the Admiral's right eye is covered by a black eye patch, and his hair, beard and moustache are red and his eyes are black; the sash across the front of the character's jacket is red with a white and red medal and he also has a cape, white pants, and black boots; a sword is by his lowered right arm; the Admiral's cape is blue on the outside with a gold border and red on the inside; a large ship is centred behind the character and the label also includes a compass to the left of the character and a map of Western Europe to the right of the character; the refreshed ADMIRAL NELSON'S labels include scalloped edges around the exterior of the labels and the ADMIRAL NELSON'S word trademark is above the character in a

stacked form; the refreshed ADMIRAL NELSON'S spiced rum label has a more prominent blue colour and border; and the new ADMIRAL NELSON'S coconut rum label includes halved coconuts positioned near each side of the label close to the bottom of the label.

[125] In my view, the degree of resemblance between Heaven Hill's trademark and Diageo's trademarks is significant, and for the reasons stated below, there is a likelihood of confusion between the characters depicted on the bottle labels for the ADMIRAL NELSON'S rum products and all but one of Diageo's registered trademarks.

(6) Likelihood of Confusion

[126] In view of the statutory factors set forth in subsection 6(5) of the *Act* and the other circumstances of this case, and having regard to the evidence adduced at trial, I find on a balance of probabilities that there is a likelihood of confusion between the characters depicted on the bottle labels for the ADMIRAL NELSON'S rum products and all but one of Diageo's registered trademarks. The inherent distinctiveness of each of the CAPTAIN MORGAN trademarks and the extent to which they have become known and used over many years across Canada outweigh Heaven Hill's claims as to the inherent distinctiveness of its composite mark which was refreshed in 2013.

[127] Moreover, the degree of resemblance between the Admiral Nelson character and Diageo's registered trademarks (other than TMA864,267) is such that, as a matter of first impression, a somewhat hurried consumer, with an imperfect recollection of the CAPTAIN MORGAN trademarks who is ordinarily cautious but does not pause to examine closely the

similarities or differences between the trademarks or trade names, would likely be confused in purchasing a bottle of ADMIRAL NELSON'S rum, thinking it to be a bottle of CAPTAIN MORGAN rum. This conclusion is supported by the findings in the Corbin report as discussed above; it is also supported by the testimony of Andrew Knight, Diageo's Director of Planning and Insights, who testified that: "an alcohol purchase is a very small part of a consumer's life, and they tend to make the decision quite quickly and don't have that much thought in it."

[128] Although there is little scope for confusion when one considers or speaks the words "ADMIRAL NELSON'S" and "CAPTAIN MORGAN", in my view there is a likelihood of visual confusion between the ADMIRAL NELSON'S character and each of Diageo's trademarks other than TMA864,267. In each of Diageo's trademark registrations TMA676,119, TMA846,829, and TMA848,087, there is a fanciful depiction of an historical naval figure wearing a nautical uniform with buttons and a cape. The ADMIRAL NELSON'S character is also a fanciful depiction of an historical naval figure wearing a nautical uniform with buttons and a cape. There are only minor variances between these three Diageo trademarks and its registered trademark TMA676,015, which contains a colour claim. Both the character in TMA676,015 and the character depicted in the ADMIRAL NELSON'S rum products are wearing red, white, dark blue and gold coloured attire. I find that there is a likelihood of confusion between the characters used on all five ADMIRAL NELSON'S rum varieties and these four trademarks of Diageo when assessed individually or compositely in view of the ADMIRAL NELSON'S character.

[129] Diageo's registered trademarks TMA846,828 and TMA863,667 depict the CAPTAIN MORGAN bottle label for Original Spiced Rum and Silver Spiced Rum, respectively. In both of

these trademarks, and also on the labels for the ADMIRAL NELSON'S rum products, the character is prominently displayed in the centre of the bottle labels, the brand name of the rum is written above the character, the type of rum is written below the character, and there is a ship behind each character. These two trademarks, when assessed against all five ADMIRAL NELSON'S rum varieties, are sufficiently similar, individually or compositely, that there is a likelihood of confusion between the ADMIRAL NELSON'S character and these two Diageo trademarks.

[130] As for Diageo's registered trademarks TMA298,005, TMA409,540, and TMA445,025, which Heaven Hill claims are invalid and have been abandoned, each of these trademarks (as noted earlier) depict a character with the following elements: a strap across the chest; an ascot; a sword in his right hand (though in one instance it is unsheathed); a cape; a prominent moustache and long dark hair; a nearly knee length naval jacket or coat with exaggerated cuffs; and a fanciful hat, though in one instance there is no hat. All three of these trademarks depict a character standing, without their leg raised on a barrel. Each of these Diageo trademarks, when assessed against all five ADMIRAL NELSON'S rum varieties, is sufficiently similar, individually or compositely, that there is a likelihood of confusion between the ADMIRAL NELSON'S character and these three Diageo trademarks.

[131] With respect to Diageo's skeleton trademark TMA864,267, which looks like this:



I note that this mark is used on the backside of the label for CAPTAIN MORGAN Black Spiced Rum and not on the front side of the label, and that the bottle for this rum product looks like this:



[132] In my view, there is little likelihood of confusion between Diageo's trademark TMA864,267 and the character depicted on the five ADMIRAL NELSON'S rum varieties because this trademark, unlike Diageo's other nine trademarks, depicts a skeleton figure and it is

not visible when a consumer purchases this rum product; it only becomes visible as and when the rum inside the bottle is emptied.

[133] It is true, as Heaven Hill points out, that there are some differences in the ADMIRAL NELSON'S and CAPTAIN MORGAN characters and the labels on which they are depicted, notably the position of the characters' legs, the absence of a compass or map on the CAPTAIN MORGAN label, and the absence of a barrel on the ADMIRAL NELSON'S bottle label. Differences such as these, however, do not detract from the overall visual appearance, first impression, and similarities between the various depictions of the ADMIRAL NELSON'S and CAPTAIN MORGAN characters. In my view, it would be unlikely that, as a matter of first impression, a somewhat hurried consumer with an imperfect recollection of the CAPTAIN MORGAN trademarks would pause to examine closely the similarities or the differences between the trademarks or trade names. Heaven Hill's arguments as to the differences between the attire of the ADMIRAL NELSON'S and CAPTAIN MORGAN characters and the bottle labels are essentially a side by side comparison of the competing marks, something which is not to be done since the mythical consumer somewhat in a hurry would not do so (see: *Masterpiece* at para 40).

[134] Moreover, it cannot be said that the ADMIRAL NELSON'S word trademark directs an association with Vice Admiral Horatio Lord Nelson sufficient to differentiate ADMIRAL NELSON'S rum products from those of Diageo's CAPTAIN MORGAN; nor can it be said, as Heaven Hill does, that the causal connection to this historical figure is reinforced by the fanciful depiction of the character on the labels for Heaven Hill's rum products. As was the case in *Corby*

Distilleries Ltd v Wellington County Brewery Ltd, [1995] FCJ No 264 at para 22, 59 CPR (3d) 357 (FCTD), it is not obvious to me that consumers in Canada would associate the ADMIRAL NELSON'S name on Heaven Hill's rum products with an historical figure who died more than 200 years ago. The evidence adduced by Heaven Hill in this regard is insufficient to conclude that they would make this association and thus not be confused or mistaken about the source of the rum products.

[135] In summary, I find that Heaven Hill's use of its character or label trademarks in association with ADMIRAL NELSON'S rum products infringe Diageo's exclusive right to use its registered trademarks TMA298,005, TMA409,540, TMA445,025, TMA676,015, TMA676,119, TMA846,828, TMA846,829, TMA848,087, and TMA863,667, contrary to paragraph 20(1)(a) of the *Act*. The current depiction of the ADMIRAL NELSON'S character is a confusing trademark when compared with Diageo's trademarks, individually or compositely over time, except in relation to Diageo's trademark registration TMA864,267.

H. *Is Heaven Hill's use of its character or label trademarks in association with ADMIRAL NELSON'S rum products likely to depreciate the value of the goodwill associated with Diageo's registered trademarks, contrary to subsection 22(1) of the Act?*

[136] Subsection 22(1) of the *Act* provides as follows:

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.

22 (1) Nul ne peut employer une marque de commerce déposée par une autre personne d'une manière susceptible d'entraîner la diminution de la valeur de l'achalandage attaché à cette marque de commerce.

[137] Subsection 22(1) of the *Act* requires that a defendant use a trademark sufficiently similar to a plaintiff's registered trademark to evoke a mental association of the two marks that is likely to depreciate the value of the goodwill attached to the registered mark. As stated by the Supreme Court of Canada in *Veuve Clicquot*:

38 ... Nothing in s. 22 requires a demonstration that use of both marks in the same geographic area would likely lead to confusion. The appellant need only show that the respondents have made use of marks sufficiently similar to VEUVE CLICQUOT to evoke in a relevant universe of consumers a mental association of the two marks that is likely to depreciate the value of the goodwill attaching to the appellant's mark.

...

46 Section 22...has four elements. Firstly, that a claimant's registered trade-mark was used by the defendant in connection with wares or services - whether or not such wares and services are competitive with those of the claimant. Secondly, that the claimant's registered trade-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 (in contrast to the analogous European and U.S. laws), but a defendant cannot depreciate the value of the goodwill that does not exist. Thirdly, the claimant's mark was used in a manner likely to have an effect on that goodwill (i.e. linkage) and fourthly that the likely effect would be to depreciate the value of its goodwill (i.e. damage). ...

...

54 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 that approach 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, 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....

[138] In Heaven Hill's view, no evidence adduced at trial shows that the ADMIRAL NELSON'S composite mark evokes a mental association with each of Diageo's trademarks, and the Corbin survey evidence does not establish any linkage with such trademarks. According to Heaven Hill, Diageo failed to prove that the retail sale of ADMIRAL NELSON'S rum products will likely depreciate the reputation of CAPTAIN MORGAN rum products and it did not prove that harm to the registered trademarks is likely.

[139] Diageo says all of the elements required under subsection 22(1) have been established, in that: (1) the Corbin report shows a "linkage" or "mental association" between the competing trademarks; (2) the CAPTAIN MORGAN trademarks have considerable goodwill; and (3) there is a likelihood of damage due to an inevitable impairment of distinctiveness as well as Heaven Hill's quality control issues concerning some of the ADMIRAL NELSON'S rum products.

[140] In view of the evidence adduced at trial, I find that while Heaven Hill has not actually used any of Diageo's CAPTAIN MORGAN trademarks, use of its ADMIRAL NELSON'S composite trademark is likely to have the effect of depreciating the value of the goodwill attaching to Diageo's trademarks except in relation to Diageo's trademark registration TMA864,267. Heaven Hill's ADMIRAL NELSON'S composite trademark directly competes with nine of Diageo's trademarks in the market for rum products in three Canadian provinces. Diageo's trademarks, as found above, are sufficiently well known to have significant goodwill, and the use of the ADMIRAL NELSON'S composite trademark by Heaven Hill is likely to have an effect upon and depreciate that goodwill. In short, Heaven Hill's use of its character and label trademarks in association with ADMIRAL NELSON'S rum products is likely to depreciate the

value of the goodwill associated with Diageo's registered trademarks, except in relation to Diageo's trademark registration TMA864,267, contrary to subsection 22(1) of the *Act*.

I. *Is Heaven Hill entitled to any of the relief requested in its Amended Statement of Defence and Counterclaim?*

[141] Heaven Hill claims in its Amended Statement of Defence and Counterclaim the following relief:

1. A declaration that all of the trademarks pleaded and relied upon by Diageo are invalid pursuant to paragraph 18(1)(b) of the *Act*;
2. A declaration that the Trade-mark Registration Nos. TMA846,828, TMA846,829, TMA848,087, TMA863,667, and TMA864,267, pleaded and relied upon by Diageo are invalid pursuant to subsections 16(3)(a) and 18(1) of the *Act*;
3. A declaration that the Trade-mark Registration Nos. TMA298,005, TMA409,540, and TMA445,025, have been abandoned and that these registrations are invalid pursuant to subsection 18(1)(c) of the *Act*;
4. An order that the trademarks relied upon by Diageo be expunged;
5. An order requiring Diageo to pay Heaven Hill damages for false and misleading statements made by Diageo, contrary to subsection 7(a) of the *Act*;
6. An injunction restraining Diageo from making and inducing others to make false and misleading statements about the products and business of Heaven Hill, contrary to subsection 7(a) of the *Act*;
7. An order requiring Diageo to pay punitive damages to Heaven Hill; and

8. Its costs of this action including its Counterclaim on the highest scale, including all disbursements and taxes.

[142] Heaven Hill claims Diageo has issued press releases and other statements alleging that the ADMIRAL NELSON'S rum products infringe and dilute the CAPTAIN MORGAN trade dress, the brand's labelling, and the CAPTAIN MORGAN character trademarks, so as to discredit Heaven Hill's business and rum products. In Heaven Hill's view, these statements disparage its business and ADMIRAL NELSON'S rum products and were calculated to undermine its reputation. Diageo's egregious statements should, Heaven Hill says, be sanctioned by an award of punitive damages.

[143] Diageo denies that Heaven Hill is entitled to any of the relief claimed in its Amended Statement of Defence and Counterclaim. Diageo admits it issued a press release about the ADMIRAL NELSON'S rum products, but in Diageo's view its statements were neither false nor misleading, nor did they damage Heaven Hill in any way.

[144] On the same day as it commenced this action, Diageo issued a press release which stated, in relevant part, that:

Heaven Hill's use of blatantly confusing trade dress, including blatantly confusing historical character, in connection with the sales of the ADMIRAL NELSON rum brand is clearly intended to mimic the CAPTAIN MORGAN brand to trade upon the brand's goodwill and create consumer confusion.

"Diageo appreciates healthy competition, as continued innovation maintains consumer excitement and benefits the entire industry," said Iain Chalmers, Vice President of Marketing, Diageo Canada. "However, we are strongly opposed to competitors copycatting the label design and character trademark of established brands like

CAPTAIN MORGAN. We will fight these infringements wherever we can.”

[145] Heaven Hill claims in its Counterclaim that the foregoing statements contravene subsection 7(a) of the *Act* which provides that: “No person shall...make a false or misleading statement tending to discredit the business, goods or services of a competitor.” According to Heaven Hill, these statements are false and misleading and tend to discredit its business and its products since ADMIRAL NELSON’S has a unique and distinct trade dress and character that has been present in the marketplace for over a decade. Additionally, Heaven Hill says that, while the full extent of the damage is unknown, Mr. Shapira’s testimony as to the loss of additional business in Europe as a result of this action as well as dissemination of these false and misleading statements by the media in the spirits industry has likely impacted the reputation of Heaven Hill and its ADMIRAL NELSON’S products.

[146] Heaven Hill’s claim for damages and injunctive relief as a result of Diageo’s alleged contravention of subsection 7(a) of the *Act* is unfounded in view of the evidence adduced at trial with respect to this issue. As noted by the Court in *Corocord Raumnetx GMBH v Dynamo Industries Inc*, 2016 FC 1369, [2016] FCJ No 1403:

Three elements must be proven to successfully claim contravention to subsection 7(a) of the Trade-marks Act: (i) a false or misleading statement; (ii) which tends to discredit the business, wares or services of a competitor; and (iii) resulting damage (*S & S Industries Inc v Rowell*, [1966] SCR 419 [*S & S Industries Inc*] at 424).

[147] Damages are an essential element in a claim under subsection 7(a) of the *Act*. However, Heaven Hill’s evidence at trial as to any such damage caused by the press release was not

convincing and was limited to Mr. Shapira's testimony. Heaven Hill failed to establish whether anyone in Canada has even seen the impugned press release, and there was no evidence that it has caused any damage to Heaven Hill in Canada. Although Mr. Shapira did testify as to several calls being received subsequent to the press release, and also as to some missed or lost opportunities with a couple of potential customers in Europe who were interested in purchasing the ADMIRAL NELSON'S brand, this evidence was unsubstantiated and falls well short of establishing that Diageo contravened subsection 7(a) of the *Act* by issuing the press release. Moreover, in view of my conclusion above as to the likelihood of confusion between the ADMIRAL NELSON'S and CAPTAIN MORGAN rum products, it cannot be said that the statements in the press release about Heaven Hill mimicking and copycatting the CAPTAIN MORGAN character trademark are false and misleading.

[148] Accordingly, Heaven Hill has not established that it is entitled to an injunction restraining Diageo from making and inducing others to make false and misleading statements about the products and business of Heaven Hill. Moreover, in view of my findings above, Heaven Hill has not established that it is entitled to any of the other relief requested in its Amended Statement of Defence and Counterclaim.

J. *Is Diageo entitled to any of the relief requested in its Amended Statement of Claim?*

[149] Diageo claims the following relief in its Amended Statement of Claim:

1. A declaration that Heaven Hill's sale, distribution, and advertising in Canada of alcoholic beverages in association with the ADMIRAL NELSON'S character and

labels constitute an infringement of, and is likely to have the effect of depreciating the value of the goodwill attaching to, Diageo's trademarks;

2. A declaration that the ADMIRAL NELSON'S bottles amount to Heaven Hill directing public attention to its wares and business in such a way as to cause or to be likely to cause confusion in Canada between its wares and business and the wares and business of Diageo, contrary to paragraph 7(b) of the *Act*, and also that the ADMIRAL NELSON'S bottles amount to Heaven Hill passing off its alcoholic beverages as the alcoholic beverages of Diageo, contrary to paragraph 7(c) of the *Act*;
3. A permanent injunction restraining Heaven Hill, its officers, directors, shareholders, employees, licensees, representatives, agents, or any person under its authority or control, or any company, partnership, business entity or person with which they are associated or affiliated, from further directly or indirectly:
 - a. selling, distributing, importing into Canada, exporting from Canada, offering for sale or advertising in Canada, alcoholic beverages in association with the ADMIRAL NELSON'S character or any other character which causes or is likely to cause confusion with or which is likely to have the effect of depreciating the value of the goodwill attaching to Diageo's trademark registrations;
 - b. selling, distributing, importing into Canada, exporting from Canada, offering for sale or advertising in Canada, alcoholic beverages in association with the ADMIRAL NELSON'S bottles or any other bottle

that is likely to cause confusion with the CAPTAIN MORGAN alcoholic beverages and bottles, individually or collectively;

- c. directing public attention to Heaven Hill's wares, services or business in such a way as to cause or be likely to cause confusion in Canada between its wares, services or business and the wares, services or business of Diageo; and
 - d. passing off its alcoholic beverages as and for the alcoholic beverages of Diageo;
4. An order for the delivery-up to a representative of Diageo, or at Diageo's election destruction under oath, of all ADMIRAL NELSON'S bottles and any other alcoholic beverage bottle which would offend the requested injunction, and all material of any nature, including all packages, labels, and advertising material, in the possession or control of Heaven Hill, the use of which would offend such injunction;
 5. General, aggravated and punitive damages for trademark infringement, passing off, unfair competition, and depreciation of goodwill, or an order directing an accounting and payment of Heaven Hill's profits, as Diageo may elect after examination of the Heaven Hill's documentation on the issue of Diageo's damages and Heaven Hill's profits;
 6. Pre-judgment and post-judgment interest on all monetary relief pursuant to sections 36 and 37 of the *Federal Courts Act*; and
 7. Its costs of this action together with any applicable Goods and Services tax.

[150] In view of the evidence adduced at trial and my findings above, Diageo has established that it is entitled to the following relief:

1. A declaration that Heaven Hill's sale, distribution and advertising in Canada of the ADMIRAL NELSON'S Premium Spiced, Premium Dark, Premium Silver, Premium Gold, and Premium Coconut rum products infringe and depreciate the goodwill attaching to Diageo's Trade-mark Registration Nos.: TMA298,005; TMA409,540; TMA445,025; TMA676,015; TMA676,119; TMA846,828; TMA846,829; TMA848,087; and TMA863,667.
2. A declaration that Heaven Hill has directed public attention to its wares and business in such a way as to cause confusion in Canada between its wares and business and the wares and business of Diageo.
3. A declaration that the ADMIRAL NELSON'S bottles amount to Heaven Hill passing off its alcoholic beverages as the alcoholic beverages of Diageo.
4. A permanent injunction restraining and prohibiting Heaven Hill, its officers, directors, shareholders, employees, licensees, representatives, agents, and any person under its authority or control, or any company, partnership, business entity or person with which they are associated or affiliated, from directly or indirectly:
 - a. selling, distributing, importing into Canada, exporting from Canada, offering for sale or advertising in Canada, alcoholic beverages in association with the ADMIRAL NELSON'S character or any other character which causes or is likely to cause confusion with, or which is likely to have the effect of depreciating the value of the goodwill attaching to, Diageo's Trade-mark Registration Nos.: TMA298,005; TMA409,540;

TMA445,025; TMA676,015; TMA676,119; TMA846,828; TMA846,829;
TMA848,087; and TMA863,667;

- b. selling, distributing, importing into Canada, exporting from Canada, offering for sale or advertising in Canada, alcoholic beverages in association with the ADMIRAL NELSON'S bottles or any other bottle that is likely to cause confusion with the CAPTAIN MORGAN alcoholic beverages and bottles, individually or collectively;
 - c. directing public attention to Heaven Hill's wares, services or business in such a way as to cause or be likely to cause confusion in Canada between its wares, services or business and the wares, services or business of Diageo; and
 - d. passing off its alcoholic beverages as and for the alcoholic beverages of Diageo.
5. An order that Heaven Hill deliver to a representative of Diageo, or at Diageo's election destruction under oath of, all ADMIRAL NELSON'S bottles in Canada which would offend the foregoing injunction and all material of any nature, including all packages, labels, and advertising material in Canada, in the possession or control of Heaven Hill, the use of which would offend such injunction.
 6. An accounting and such damages as may be determined upon hearing of the Quantification Issues as stated and defined in the Bifurcation Order.

7. Pre-judgment and post-judgment interest on any damages as assessed in accordance with the Bifurcation Order, pursuant to sections 36 and 37 of the *Federal Courts Act*.

[151] Diageo shall have its costs of this action, including its disbursements and any applicable taxes, in such amounts as may be agreed to by Heaven Hill and Diageo. If they are unable to agree as to the amount of such costs and disbursements and any applicable taxes thereon within 20 days of the date of this judgment, either party shall thereafter be at liberty to apply for an assessment of costs in accordance with the *Federal Courts Rules*.

IV. Conclusion

[152] For the reasons stated above, Heaven Hill's Counterclaim as against Diageo is dismissed. Diageo's claims as against Heaven Hill have been established as stated above. The Court lifts the stay of the claim and Counterclaim as between Diageo and Diamond Estates imposed by its Order dated September 25, 2015. Consequently, Diamond Estates' Counterclaim as against Diageo is dismissed, and no costs are awarded for or against either Diageo or Diamond Estates in respect of the Amended Statement of Claim and Counterclaim as between Diamond Estates and Diageo. Diamond Estates is bound by the terms of this judgment with respect to the distribution, advertisement, promotion, sale, and delivery-up of the ADMIRAL NELSON'S rum products.

JUDGMENT

THIS COURT'S JUDGMENT is that:

1. Heaven Hill's sale, distribution, and advertising in Canada of the ADMIRAL NELSON'S rum products infringe and depreciate the goodwill attaching to Diageo's Trade-mark Registration Nos.: TMA298,005; TMA409,540; TMA445,025; TMA676,015; TMA676,119; TMA846,828; TMA846,829; TMA848,087; and TMA863,667.
2. Heaven Hill has directed public attention to its wares and business so as to cause confusion in Canada between its wares and business and the wares and business of Diageo in Canada.
3. Heaven Hill has passed off the ADMIRAL NELSON'S bottles as being those of CAPTAIN MORGAN.
4. Diamond Estates shall be bound by the three foregoing declarations.
5. Heaven Hill and Diamond Estates, their respective officers, directors, shareholders, employees, licensees, representatives, agents, and any person under their authority or control, and any company, partnership, business entity or person with which they are associated or affiliated, are restrained, prohibited and enjoined from, directly or indirectly:
 - a. selling, distributing, importing into Canada, exporting from Canada, offering for sale or advertising in Canada, alcoholic beverages in association with the ADMIRAL NELSON'S character or any other character which causes or is likely to cause confusion with, or which is likely to have the effect of depreciating the value of the goodwill attaching

to, Diageo's Trade-mark Registration Nos.: TMA298,005; TMA409,540; TMA445,025; TMA676,015; TMA676,119; TMA846,828; TMA846,829; TMA848,087; and TMA863,667;

- b. selling, distributing, importing into Canada, exporting from Canada, offering for sale or advertising in Canada, alcoholic beverages in association with the ADMIRAL NELSON'S bottles or any other bottle that is likely to cause confusion with the CAPTAIN MORGAN bottles, individually or collectively;
 - c. directing public attention to their wares, services or business in such a way as to cause or be likely to cause confusion in Canada between their wares, services or business and the wares, services or business of Diageo; and
 - d. passing off the ADMIRAL NELSON'S rum products as and for those of Diageo's CAPTAIN MORGAN rum products.
6. Heaven Hill and Diamond Estates shall forthwith and, in any event, within 30 days of the date of this judgment, deliver-up to a representative of Diageo, or at Diageo's election a statement of destruction under oath of, all ADMIRAL NELSON'S bottles in their possession or control in Canada which would offend the foregoing injunction, and all material of any nature, including all packages, labels, and advertising material, in their possession or control in Canada, the use of which would offend such injunction.
 7. Heaven Hill and Diamond Estates shall submit to an accounting and pay to Diageo such damages as may be determined upon hearing of the Quantification Issues as stated and defined in the Court's Bifurcation Order dated July 16, 2015.

8. Heaven Hill and Diamond Estates shall pay to Diageo pre-judgment and post-judgment interest on any damages as assessed in accordance with the Bifurcation Order dated July 16, 2015, pursuant to sections 36 and 37 of the *Federal Courts Act*.
9. Diageo shall have its costs of this action, including its disbursements and any applicable taxes, in such amounts as may be agreed to by Heaven Hill and Diageo. If they are unable to agree as to the amount of such costs and disbursements and any applicable taxes thereon within 20 days of the date of this judgment, either party shall thereafter be at liberty to apply for an assessment of costs in accordance with the *Federal Courts Rules*.

"Keith M. Boswell"

Judge

FEDERAL COURT
SOLICITORS OF RECORD

DOCKET: T-740-14

STYLE OF CAUSE: DIAGEO CANADA INC. v HEAVEN HILL
DISTILLERIES, INC. and DIAMOND ESTATES WINES
& SPIRITS LTD. d.b.a. KRISCOTT DISTRIBUTORS

PLACE OF HEARING: TORONTO, ONTARIO

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DATED: JUNE 12, 2017

APPEARANCES:

François Guay
Mark K. Evans
Ekaterina Tsimberis
Renaud Garon Gendron

FOR THE PLAINTIFF/
DEFENDANT BY COUNTERCLAIM

Peter F. Kappel
Talia Gordner

FOR THE DEFENDANT/
PLAINTIFF BY COUNTERCLAIM,
HEAVEN HILL DISTILLERIES, INC.

SOLICITORS OF RECORD:

Smart & Biggar
Barristers and Solicitors
Toronto, Ontario

FOR THE PLAINTIFF/
DEFENDANT BY COUNTERCLAIM

Blaney McMurtry LLP
Barristers and Solicitors
Toronto, Ontario

FOR THE DEFENDANT/
PLAINTIFF BY COUNTERCLAIM,
HEAVEN HILL DISTILLERIES, INC.

Belmore Neidrauer LLP
Barristers and Solicitors
Toronto, Ontario

FOR THE DEFENDANT/
PLAINTIFF BY COUNTERCLAIM,
DIAMOND ESTATES WINES & SPIRITS LTD.
d.b.a. KRISCOTT DISTRIBUTORS