

Federal Court of Appeal



Cour d'appel fédérale

Date: 20220209

Docket: A-229-20

Citation: 2022 FCA 24

**CORAM: WEBB J.A.
LASKIN J.A.
RIVOALEN J.A.**

BETWEEN:

**2424508 ONTARIO LTD., SYLVAIN CAYER,
GENEVIEVE-ANN CAYER, and 2590579 ONTARIO LTD.
now carrying on business as
“SUBIEDEPOT” and “SUBIEDEPOT.CA”**

Appellants

and

RALLYSPORT DIRECT LLC

Respondent

Heard by online video conference hosted by the registry on November 10, 2021.

Judgment delivered at Ottawa, Ontario, on February 9, 2022.

REASONS FOR JUDGMENT BY:

WEBB J.A.

CONCURRED IN BY:

**LASKIN J.A.
RIVOALEN J.A.**

Federal Court of Appeal



Cour d'appel fédérale

Date: 20220209

Docket: A-229-20

Citation: 2022 FCA 24

**CORAM: WEBB J.A.
LASKIN J.A.
RIVOALEN J.A.**

BETWEEN:

**2424508 ONTARIO LTD., SYLVAIN CAYER,
GENEVIEVE-ANN CAYER, and 2590579 ONTARIO LTD.
now carrying on business as
“SUBIEDEPOT” and “SUBIEDEPOT.CA”**

Appellants

and

RALLYSPORT DIRECT LLC

Respondent

REASONS FOR JUDGMENT

WEBB J.A.

[1] This is an appeal from the Order of the Federal Court, *per* Justice Fuhrer (2020 FC 794) that reduced the amount to be awarded as statutory damages payable to RallySport Direct LLC (RallySport) under section 38.1 of the *Copyright Act*, RSC 1985, c. C-42 (the Act) to \$357,500 and also awarded exemplary and punitive damages in the amount of \$50,000.

[2] The appellants are appealing on the basis that the amounts awarded as statutory damages and punitive damages are grossly out of proportion to the infringement and excessive in light of all of the circumstances. In essence, the appellants argue that the statutory damages are excessive and out of proportion to the infringement because the amount awarded was not directly linked to the harm sustained by RallySport or the profits earned by the appellants from the infringing actions, but rather are based on other factors such as the cost of production of the photos by RallySport. The appellants argue that the punitive damages are excessive because deterrence was already considered in setting the amount for the statutory damages.

[3] For the reasons that follow, I would dismiss this appeal.

I. Background and the Decisions of the Federal Court

[4] RallySport is an American corporation. It sells aftermarket specialized automotive components and accessories via the internet. It operates as both a commercial wholesale supplier and a direct seller.

[5] 2424508 Ontario Limited (242 Ontario) had, prior to being placed into bankruptcy, carried on business as an aftermarket internet dealer in specialized automotive components and accessories, selling the same parts as RallySport. Following the bankruptcy of 242 Ontario, this business was then carried on by 2590579 Ontario Limited (259 Ontario), which was incorporated in August 2017. The individual appellants were the officers and directors of 242 Ontario and are the officers and directors of 259 Ontario.

[6] RallySport has photographs for over 2,000 automotive components and accessories displayed on its website. The photographs were taken during the period from 2009 to 2017.

[7] In 2016, 242 Ontario was an authorized wholesaler for RallySport. During that time, Sylvain Cayer directed third-party contractors to copy the images that RallySport was using on its website and display those same images on the website that was being used by 242 Ontario (www.subiedepot.ca).

[8] RallySport commenced an action against the appellants alleging that the appellants infringed the copyright of RallySport in certain photographs and product descriptions that 242 Ontario, and later 259 Ontario, displayed on their website. The action was bifurcated into two parts. The first part was the liability determination – did RallySport have the copyright in the photographs and product descriptions in issue and did the appellants infringe this copyright? The Federal Court decided these issues in RallySport’s favour by the Judgment dated November 28, 2019 (2019 FC 1524). RallySport has the copyright in 1,430 photographs and 3 product descriptions. The appellants infringed RallySport’s copyright in these works by displaying them on the website www.subiedepot.ca. This Judgment was not appealed.

[9] The second part was the assessment of damages. RallySport elected, pursuant to paragraph 38.1(1)(a) of the Act, to be awarded statutory damages in the amount of \$500 per work. One issue before the Federal Court was whether this amount should be reduced pursuant to subsection 38.1(3) of the Act, and if so, to what amount. Another issue was whether RallySport was entitled to exemplary, punitive or aggravated damages, and, if so, in what amount.

[10] Statutory damages are based on the number of works that are infringed. For the purposes of determining the number of works, the Federal Court Judge used the number of photographs (1,430) and found that any damages related to the three product descriptions would be covered by an award based on the 1,430 photographs. As this finding has not been appealed, in these reasons the number of works that were infringed will be treated as 1,430.

[11] While the Federal Court Judge noted that some cases suggest that statutory damages should be tied to actual or probable damages, she stated that she agreed with the principle that “probable damages [are] not determinative and the use of such estimates in determining statutory damages is [but] one means of ensuring that any damages award is fair and proportionate” (Reasons at paragraph 8, citing Ronald Dimock, *Intellectual Property Disputes: Resolutions & Remedies* (Toronto: Thomson Reuters Canada, 2016) (loose-leaf revision 5), ch 3 at p 3-38, as cited in *Young v Thakur*, 2019 FC 835, at para 57, and *Royal Conservatory of Music v Macintosh (Novus Via Music Group Inc)*, 2016 FC 929, at para 120).

[12] In her view this principle was consistent with the Act, “which provides that in exercising its discretion (i.e. to reduce the minimum amount of the statutory damages award per work), the Court must consider all relevant factors, including the good or bad faith of the defendant, the parties’ conduct before and during the proceedings, and the need to deter future copyright infringements” (Reasons at paragraph 8).

[13] In this case, since a total of 1,430 works were infringed, a statutory award in the minimum amount of \$500 per work, as provided in paragraph 38.1(1)(a) of the Act, would have

resulted in a total award of \$715,000. The question was whether this amount should be reduced under subsection 38.1(3) of the Act. The focus of the matter before the Federal Court (and the Federal Court Judge's reasons) was on whether the statutory minimum was grossly out of proportion to the infringement.

[14] The Federal Court Judge concluded that an award of that magnitude (\$500 per work for a total of \$715,000) would be grossly disproportionate to the infringement. In reducing the statutory damages by 50%, the Federal Court Judge noted, in paragraph 24 of her reasons, that she was taking into account RallySport's labour costs, as well as deterrence and the other factors listed in subsection 38.1(5) of the Act.

[15] The Federal Court Judge noted, in paragraph 26 of her reasons, that in *Trader Corp. v. CarGurus*, 2017 ONSC 1841 (*Trader*), the Ontario Superior Court of Justice "based its statutory award assessment in part on a rough per-work estimate of the labour costs involved in producing those photos". The Federal Court Judge then examined RallySport's costs of producing the photographs (which she found to be US \$109.44 per photo) and the cost of acquiring the products featured in the photographs (which ranged from US \$224,055 to \$240,059). This resulted in a range of US \$388,494 to \$404,479 for the total production and product acquisition costs.

[16] The total product acquisition costs, however, were not factored precisely into the calculation, as some of the products purchased were resold or exchanged. No report was filed indicating how many products became "dead stock".

[17] The Federal Court Judge also considered the factors set out in paragraphs 38.1(5)(a), (b) and (c) of the Act.

[18] The conclusion is set out in paragraph 43 of her reasons. Statutory damages in the amount of \$250 per work (\$357,500 in total) were awarded. The Federal Court Judge found that this amount “is a fair and proportionate or just award taking into account: [RallySport’s] labour costs of USD \$109.44 or CAD \$146.93 per work; the [appellants’] bad faith; and the need to deter the [appellants] and others from infringing [RallySport’s] Works”. Prejudgment interest was also awarded calculated from the date that RallySport made the appellants aware of their infringement.

[19] The Federal Court Judge agreed with the appellants that aggravated damages were not warranted. However, she found that punitive damages were warranted as a result of the appellants’ actions and, in particular, their attempts to avoid liability by creating a new company (259 Ontario) and transferring the photographs to it, after RallySport had commenced its infringement action against 242 Ontario. Punitive damages were awarded in the amount of \$50,000.

[20] The result of the Order that is under appeal is that RallySport is entitled to \$357,500 in statutory damages (calculated as \$250 per work times 1,430 works), prejudgment interest on the statutory damages, and an additional \$50,000 in punitive damages.

II. Section 38.1 of the Act

[21] The relevant provisions of the Act are subsections 38.1(1), (3), (5) and (7):

38.1 (1) Subject to this section, a copyright owner may elect, at any time before final judgment is rendered, to recover, instead of damages and profits referred to in subsection 35(1), an award of statutory damages for which any one infringer is liable individually, or for which any two or more infringers are liable jointly and severally,

(a) in a sum of not less than \$500 and not more than \$20,000 that the court considers just, with respect to all infringements involved in the proceedings for each work or other subject-matter, if the infringements are for commercial purposes; and

(b) in a sum of not less than \$100 and not more than \$5,000 that the court considers just, with respect to all infringements involved in the proceedings for all works or other subject-matter, if the infringements are for non-commercial purposes.

...

38.1 (1) Sous réserve des autres dispositions du présent article, le titulaire du droit d'auteur, en sa qualité de demandeur, peut, avant le jugement ou l'ordonnance qui met fin au litige, choisir de recouvrer, au lieu des dommages-intérêts et des profits visés au paragraphe 35(1), les dommages-intérêts préétablis ci-après pour les violations reprochées en l'instance à un même défendeur ou à plusieurs défendeurs solidairement responsables :

a) dans le cas des violations commises à des fins commerciales, pour toutes les violations — relatives à une oeuvre donnée ou à un autre objet donné du droit d'auteur —, des dommages-intérêts dont le montant, d'au moins 500 \$ et d'au plus 20 000 \$, est déterminé selon ce que le tribunal estime équitable en l'occurrence;

b) dans le cas des violations commises à des fins non commerciales, pour toutes les violations — relatives à toutes les oeuvres données ou tous les autres objets donnés du droit d'auteur —, des dommages-intérêts, d'au moins 100 \$ et d'au plus 5 000 \$, dont le montant est déterminé selon ce que le tribunal estime équitable en l'occurrence.

[...]

(3) In awarding statutory damages under paragraph (1)(a) or subsection (2), the court may award, with respect to each work or other subject-matter, a lower amount than \$500 or \$200, as the case may be, that the court considers just, if

(a) either

(i) there is more than one work or other subject-matter in a single medium, or

(ii) the award relates only to one or more infringements under subsection 27(2.3); and

(b) the awarding of even the minimum amount referred to in that paragraph or that subsection would result in a total award that, in the court's opinion, is grossly out of proportion to the infringement.

...

(5) In exercising its discretion under subsections (1) to (4), the court shall consider all relevant factors, including

(a) the good faith or bad faith of the defendant;

(b) the conduct of the parties before and during the proceedings;

(c) the need to deter other infringements of the copyright in question; and

(d) in the case of infringements for non-commercial purposes, the need for an award to be proportionate to

(3) Dans les cas où plus d'une oeuvre ou d'un autre objet du droit d'auteur sont incorporés dans un même support matériel ou dans le cas où seule la violation visée au paragraphe 27(2.3) donne ouverture aux dommages-intérêts préétablis, le tribunal peut, selon ce qu'il estime équitable en l'occurrence, réduire, à l'égard de chaque oeuvre ou autre objet du droit d'auteur, le montant minimal visé à l'alinéa (1)a) ou au paragraphe (2), selon le cas, s'il est d'avis que même s'il accordait le montant minimal de dommages-intérêts préétablis le montant total de ces dommages-intérêts serait extrêmement disproportionné à la violation.

[...]

(5) Lorsqu'il rend une décision relativement aux paragraphes (1) à (4), le tribunal tient compte notamment des facteurs suivants :

a) la bonne ou mauvaise foi du défendeur;

b) le comportement des parties avant l'instance et au cours de celle-ci;

c) la nécessité de créer un effet dissuasif à l'égard de violations éventuelles du droit d'auteur en question;

d) dans le cas d'une violation qui est commise à des fins non commerciales, la nécessité

the infringements, in consideration of the hardship the award may cause to the defendant, whether the infringement was for private purposes or not, and the impact of the infringements on the plaintiff.

d'octroyer des dommages-intérêts dont le montant soit proportionnel à la violation et tienne compte des difficultés qui en résulteront pour le défendeur, du fait que la violation a été commise à des fins privées ou non et de son effet sur le demandeur.

...

[...]

(7) An election under subsection (1) does not affect any right that the copyright owner may have to exemplary or punitive damages.

(7) Le choix fait par le demandeur en vertu du paragraphe (1) n'a pas pour effet de supprimer le droit de celui-ci, le cas échéant, à des dommages-intérêts exemplaires ou punitifs.

III. Issues and Standard of Review

[22] Although the appellants have framed a number of different issues, essentially the issues raised by the appellants are whether the Federal Court Judge erred:

- a) in awarding statutory damages that are not directly linked to the harm sustained by RallySport or the profits earned by the appellants from the infringing actions, but rather are based on other factors such as the cost of production of the photos by RallySport; and
- b) in awarding punitive damages when deterrence was already considered in the amount awarded for statutory damages.

[23] The standard of review for any question of fact or mixed fact and law is palpable and overriding error and for any question of law is correctness (*Housen v. Nikolaisen*, 2002 SCC 33).

IV. Analysis

A. *Statutory Damages*

[24] The minimum amount for statutory damages is \$500 per work where the infringement is for commercial purposes (paragraph 38.1(1)(a) of the Act). In this appeal, the amount awarded for statutory damages is 50% of the minimum amount. The appellants' main argument is that the award of \$250 per work is still too high because it is not linked to the actual damages suffered by RallySport or the profits earned by the appellants.

[25] The Federal Court Judge relied on the decision of the Ontario Superior Court in *Trader* as support for finding that the production costs of the copyright owner that were incurred to take the photographs (including costs incurred in properly arranging the objects in the scene to be photographed) can be used to determine the appropriate amount to be awarded for statutory damages.

[26] The appellants also rely on *Trader* for their submission that there must be a link between statutory damages and the damages suffered by the copyright owner as a result of the infringement of the copyright. The appellants reference paragraph 56 from *Trader* in support of three propositions in their memorandum, although this paragraph from *Traders* is not quoted in the appellants' memorandum. Paragraph 56 of *Trader* is as follows:

[56] The purpose of statutory damages is intended to ease the evidentiary burden on a copyright owner, for whom it may be difficult, if not impossible, to prove the extent of the loss: see Government of Canada's "Fact Sheet on Copyright Remedies". However, statutory damages are intended to compensate the copyright owner for its losses (and, as well, to deter future infringements).

The caselaw has held that there should be some correlation or proportionality between actual damages and statutory damages. In this case, Mr. Dunbar acknowledged on cross-examination that Trader has suffered no monetary damages and has lost no business as a result of the infringement.

[footnote references omitted]

[27] This paragraph from *Trader* is cited for the following propositions in the appellants' memorandum:

Paragraph 9 of the appellants' memorandum:

- i. That is, it is trite law across multiple areas of Canadian law, that damages are presumptively compensatory, and that a plaintiff is not entitled to a “windfall”, or damages that exceed the harm/loss it sustained due to a tort. That is, a plaintiff is only entitled to damages to the extent of the harm/loss.

Paragraph 24 of the appellants' memorandum:

- b. The usual “metric” by which this is determined is lost profits from sales of the copyrighted works, or licensing fees. The profits of the infringer are also assessed. In short, the “metric” must match the loss.

[Emphasis added by the appellants. The footnote references are omitted. Paragraph 56 of *Trader* is cited for the proposition in the last sentence: In short, the “metric’ must match the loss.”]

Paragraph 34 of the appellants' memorandum:

- 34. Intellectual property damages are presumptively compensatory in nature.

[Emphasis added by the appellants]

[28] It should first be noted that the Ontario Superior Court in paragraph 56 of *Trader* did not use mandatory language as suggested by the appellants. The Court did not say that “a plaintiff is only entitled to damages to the extent of the harm/loss” or that “the ‘metric’ must match the loss”. The Court did state that statutory damages are intended to compensate a party for its losses and to deter future infringement and that there should be some correlation or proportionality between actual damages and statutory damages.

[29] However, in *Trader*, despite Trader Corp. not suffering any monetary damages and not having any loss of business as a result of the infringement, Trader Corp. was still awarded \$305,064 in statutory damages (paragraph 67 of *Trader*). Not only does *Trader* not support the appellants’ proposition that statutory damages must be linked to the actual damages suffered by the copyright owner as a result of the infringement of the copyright, it actually supports the proposition that statutory damages can be awarded even if no monetary damages are suffered and no business is lost.

[30] The appellants also rely on the decision of the Supreme Court of Canada in *Whiten v. Pilot Insurance Co.*, 2002 SCC 18 (*Whiten*) in the section of their memorandum addressing the issue of the quantum of the statutory damages.

[31] In paragraph 6 of their memorandum, the appellants state:

6. This is a case where “a sledge-hammer was used, to swat a fly”. The Supreme Court held in *Whiten v Pilot Insurance* (“*Whiten*”), the seminal case on damages:

Despite the moral satisfaction we may derive from giving a good whack to an insurance company the verdict ... does not much advance the case of sound and fair management in the insurance industry. The award fails the rationality test ...

[emphasis added by the appellants]

[32] The appellants quote a longer extract from the same paragraph of *Whiten* in paragraph

145 of their memorandum:

145. Respectfully, the Supreme Court in *Whiten* held against ruling in such a fashion, even when there is a need to deter:

the retributive aspect of the law should not play a major role in litigation. Granting an indemnity of about three times the compensation for loss of property under an insurance policy fulfills no rational function. Despite the moral satisfaction we may derive from giving a good whack to an insurance company and some misguided middle managers, the verdict of the jury does not much advance the case of sound and fair management in the insurance industry

[emphasis added by the appellants]

[33] First, it should be noted that *Whiten* was a case related to an award of \$1,000,000 of punitive damages against an insurance company. It was not a case dealing with statutory damages under the Act. The Supreme Court restored the jury's award of \$1 million in punitive damages (paragraph 141 at the end of the reasons of the majority in *Whiten*).

[34] Of greater concern is the failure of the appellants to acknowledge that the quoted passages are from dissenting reasons. As noted by the appellants, this quote is from paragraph 162 of the reasons of the Supreme Court in *Whiten*. However, paragraph 162 is in the dissenting

reasons of Justice LeBel, which are included after the reasons of the majority. The appellants inappropriately cite this quotation as if it was in the reasons of the majority of the Supreme Court.

[35] The appellants also reference passages from the majority reasons of the Supreme Court in *Whiten*, apparently without realizing that they are quoting from both the majority and the dissenting reasons and that the majority restored the jury's verdict of \$1 million in punitive damages. The decision of the Supreme Court in *Whiten* was not addressing the issue of statutory damages under the Act and cannot be used by the appellants as support for their argument that statutory damages under the Act must be linked to the actual damages suffered.

[36] The appellants also submit that the Federal Court Judge erred by allowing RallySport to recover its costs of acquiring the parts that were depicted in the photographs. However, this is not what the Federal Court Judge stated. The Federal Court Judge noted that if the full acquisition cost of all the parts would have been included, the total amount for the production costs and acquisition costs would have been in the range of US \$388,494 to \$404,479. This was not the amount that was awarded.

[37] As noted above, statutory damages in the amount of \$250 per work (\$357,500 in total) were awarded. The Federal Court Judge found that this "is fair and proportionate or just award taking into account: [RallySport's] labour costs of USD \$109.44 or CAD \$146.93 per work; the [appellants'] bad faith; and the need to deter the [appellants] and others from infringing

[RallySport's] Works". There is no merit in the appellants' argument that the statutory damage award included RallySport's costs of acquiring the products depicted in the photographs.

[38] The appellants have not established that the Federal Court Judge made any error in reducing the statutory damages from \$500 per photograph to \$250 per photograph, and not to a lesser amount.

B. *Punitive Damages*

[39] As noted above, the Federal Court Judge awarded punitive damages based on the actions of the appellants in attempting to avoid liability for the infringement of the copyright of RallySport by creating a new company (259 Ontario) and transferring the photographs to it, after RallySport had commenced its infringement action against 242 Ontario. The conduct addressed in the punitive damage award was not conduct that resulted in infringement of the copyright but conduct undertaken in an attempt to avoid paying a judgment for copyright infringement.

There is no merit to the appellants' argument that the punitive damages were awarded for the same conduct or based on one of the same factors (the need to deter the appellants and others from infringing RallySport's works) considered in determining the amount of statutory damages.

[40] The appellants acknowledge that the Federal Court Judge made a finding of fact that the appellants' conduct amounted to attempts at judgment-proofing. Therefore, to succeed in this appeal they would have to establish a palpable and overriding error. Following this acknowledgement, the appellants state that "here is not the venue to contest such a finding"

(paragraph 154 of the appellants' memorandum). Consequently, the appellants make no attempt to challenge this finding of fact by the Federal Court Judge.

[41] The appellants have not established that the Federal Court Judge made any error in awarding punitive damages.

V. Conclusion

[42] I would therefore dismiss the appeal, with costs.

“Wyman W. Webb”

J.A.

“I agree
J.B. Laskin J.A.”

“I agree
Marianne Rivoalen J.A.”

FEDERAL COURT OF APPEAL

NAMES OF COUNSEL AND SOLICITORS OF RECORD

DOCKET:	A-229-20
STYLE OF CAUSE:	2424508 ONTARIO LTD. et al. v. RALLYSPORT DIRECT LLC
PLACE OF HEARING:	HEARD BY ONLINE VIDEO CONFERENCE HOSTED BY THE REGISTRY
DATE OF HEARING:	NOVEMBER 10, 2021
REASONS FOR JUDGMENT BY:	WEBB J.A.
CONCURRED IN BY:	LASKIN J.A. RIVOALEN J.A.
DATED:	FEBRUARY 9, 2022

APPEARANCES:

Bayo Odutola Julie Daet	FOR THE APPELLANTS
D. Doak Horne Sarah Li	FOR THE RESPONDENT

SOLICITORS OF RECORD:

OLLIP P.C. Ottawa, Ontario	FOR THE APPELLANTS
GOWLING WLG (CANADA) LLP Calgary, Alberta	FOR THE RESPONDENT