Federal Court  Cour fédérale

Date: 20150217

Docket: T-605-07

Citation: 2015 FC 189

Montréal, Quebec, February 17, 2015

PRESENT: The Honourable Madam Justice St-Louis

BETWEEN:

H-D U.S.A., LLC AND HARLEY-DAVIDSON MOTOR COMPANY, INC.

Plaintiffs
(Defendants by Counterclaim)

and

JAMAL BERRADA, 3222381 CANADA INC. AND EL BARAKA INC.

Defendants
(Plaintiffs by Counterclaim)

JUDGMENT AND REASONS

I. CONTEXT

[1] The Plaintiffs and the Defendants have been engaged in legal proceedings since 2007, at which time the Plaintiffs sought declarations that they were entitled to distribute, advertise, offer for sale, and sell their products using the trade-mark SCREAMIN' EAGLE in Canada. The Defendants counterclaimed that they have been properly using the SCREAMING EAGLE and SCREAMIN' EAGLE trade-marks for over 20 years and that the Plaintiffs' sale of clothing and

accessories bearing those trade-marks or similar marks was only undertaken in an effort to diminish, destroy or acquire their goodwill.

[2] In a decision of this Court dated March 4, 2014, Justice André Scott granted the Plaintiffs' action, declared the Plaintiffs entitled to distribute, advertise, offer for sale and sell collateral items, including clothing, in connection with their trade-mark SCREAMIN' EAGLE, in association with their registered trade-mark HARLEY-DAVIDSON, throughout Canada but exclusively at HARLEY-DAVIDSON dealerships, as this would not infringe any valid rights of the Defendants, and he dismissed the Defendants' counterclaims.

[3] In his decision, and as per the mutual request of the parties, Justice Scott reserved his judgment on costs, and requested that the parties submit written representations.

[4] At paragraphs 209 to 216 of his decision, Justice Scott addressed the issue of each party's good and bad faith, and whether the Defendants were entitled to the declarations and equitable remedies they requested.

[5] Justice Scott concluded that there was no indication from the conduct of the Plaintiffs that they had engaged in bad faith or lacked clean hands. In contrast, he found that at times, the Defendants' conduct had bordered on bad faith to the extent that "it is clear to the Court that Defendants are barred from any equitable relief".

[6] The Court notes that Justice Scott's finding that the Defendants had engaged in bad faith pertains to the fact that they "willingly tried to associate themselves with HD and trade on that name" and not to their conduct during the lengthy proceedings leading up to his decision.

[7] Justice Scott was appointed to the Federal Court of Appeal after rendering the decision on the merits, and before the hearing on costs. I recognize the fact that it is unusual for the judgment on costs not to be rendered by the trial judge.

II. SUBMISSIONS OF THE PARTIES

A. Submissions of the Plaintiffs

[8] The Plaintiffs submit that this is not a situation in which rigid adherence to the Tariff is just or appropriate. In the bill of costs they filed with their submissions, the Plaintiffs point to an amount of $109,901.54 in counsel fees, and of $134,218.11 in disbursements should the costs be awarded according to the top of column III. They are thus asking the Court to exercise the discretion granted by Rule 400(1) of the *Federal Courts Rules*, SOR/98-106 [the Rules] to increase the legal fees, and to grant a lump sum award totalling $947,369.99.

[9] They propose that this amount be divided into three parts as follows:

1) An amount of $635,000, representing 50% of the incurred legal fees in pursuing this matter to trial. According to the Plaintiffs, this departure from the alleged usual practice of applying around 33% of the incurred legal fees is justified given the Defendants' conduct as well as the result of the proceedings, the effort involved, and the conduct of the proceedings;

2) The application of Rule 420 to double the portion of the legal fees incurred after August 21, 2013, representing an amount of

> $193,592.83. This, the Plaintiffs allege, is warranted given the Defendants' rejection of the Plaintiffs' Formal Offer to Settle [the Offer] of that date, which was ultimately more favourable to the Defendants than the March 4, 2014 judgment;
>
> 3) The Plaintiffs' reasonable disbursements, amounting to $118,777.09.

[10] The Plaintiffs base their submissions on the fact that they were successful in all respects, that the case involved considerable efforts, and that the Defendants' conduct caused them to incur significant fees.

[11] Regarding the conduct of the proceedings, the Plaintiffs point to six factors that militate in favour of applying fees higher than those of the Tariff: (i) the Defendants' pattern of conduct; (ii) the fact that they maintained five separate causes of action against the Plaintiffs even though one cause was *ultra vires* and another inapplicable; (iii) the fact that the Defendants contested the scheduling of the Plaintiffs' motion for judgment based upon the fundamental admissions set out within the Agreed Statement of Facts; (iv) the fact that the Defendants made numerous inflammatory allegations; (v) the fact that the Defendants changed their testimony throughout the litigation; and finally, (vi) the fact that the Plaintiffs made genuine attempts to reach a compromise by way of settlement offers, in particular, the Offer dated August 21, 2013.

[12] In their response to the Defendants' written submissions on costs, the Plaintiffs add that all the actions initiated or executed throughout this litigation were necessary, that the actions prior to April 2011 should not be discarded as the essence of the litigation, i.e. the ability for the Plaintiffs to sell its SCREAMIN' EAGLE clothing in Canada never changed, and as it forms part of the decision on the merits of March 4, 2014. Furthermore, and contrary to the Defendants'

allegations, the fees incurred after April 2011 represent about two thirds of the total fees, thus a substantial amount of the total fees incurred. The Plaintiffs contest the Defendants' allegation that three senior partners were involved in the course of the trial. Rather, they argue, two lawyers, one partner and one "non-partner/counsel" conducted the trial, while the fees incurred by another partner were both limited and justified, as his presence proved necessary to cross-examine a witness in French.

B. Submissions of the Defendants

[13] The Defendants are asking the Court to exercise its discretion to make each party responsible for its own costs. In the alternative, the Defendants request that costs be awarded as a lump sum not exceeding $15,000.00.

[14] In their written submissions on costs, the Defendants based their request on the following factors:

1) Justice Scott's judgment did not confirm that costs should be awarded in favour of the Plaintiffs;

2) The Defendants acted in good faith, and had a reasonable basis for their legal position;

3) The Plaintiffs' position changed dramatically in April 2011. Accordingly, the Defendants should not be required to bear the significant costs of the proceedings before April 2011 as the judgment itself does not address the initial claim;

4) The Offer dated August 21, 2013 was less generous than the judgment, and Rule 420 therefore does not apply;

5) Granting the amount of costs sought by the Plaintiffs would rise to the level of punitive costs, and would be contrary to the interests of justice;

6) The Defendants were not the instigator of the proceedings and only sought to defend themselves against the Plaintiffs' claims.

[15] In the Summary of Argument of Defendants Concerning Costs, the Defendants further contest the claim by Plaintiffs with respect to costs for five reasons: (i) the Plaintiffs modified their claims so significantly in April 2011 that all expenses prior to April 2011 were no longer relevant; (ii) the Plaintiffs' hands are not clean as they were aware of the Defendants' use of SCREAMING EAGLE from about 1990 and they did not assert their rights until 2007; (iii) the Defendants acted reasonably in abbreviating the duration of the trial in various ways; (iv) the judgment on the merits seriously prejudices the rights of the Defendants; and (v) the Plaintiffs acted in bad faith by using SCREAMIN' EAGLE and/or SCREAMIN' EAGLE PERFORMANCE PARTS in Canada.

[16] Finally, the Defendants also contest some of the fees and expenses submitted by the Plaintiffs, namely, the costs associated as to the involvement of three solicitors, which was excessive in the circumstances.

III. DISCUSSION

[17] The Court confirms that the costs are awarded to the Plaintiffs, as their action was granted, while the Defendants' counterclaims were all dismissed.

[18] As per Rule 407, costs are assessed in accordance with Column III of the table to Tariff B, unless the Court decides otherwise. In addition, "departure from Tariff B is expressly contemplated by Rule 400(4) of the Rules (…)" (*Philip Morris Products SA v Malboro Canada Ltd*, 2015 FCA 9 at para 4 [*Philip Morris*]).

[19] Rule 400(1) provides that the Court holds full discretionary power over the amount and allocation of costs and may consider the several non-exhaustive factors listed in Rule 400(3) in exercising its discretion, including: the result of the proceeding, any written offer to settle, the amount of work, and any other matter that it considers relevant.

[20] In determining the reasonableness of a costs award, the Court should bear in mind the varied purposes that costs can serve. In this regard, the Federal Court of Appeal stated in *Sherman v Canada (Minister of National Revenue – MNR)*, 2003 FCA 202 at para 46 [*Sherman*], as follows:

> It is now generally accepted that an award of costs may perform more than one function. Costs under modern rules may serve to regulate, indemnify and deter. They regulate by promoting early settlements and restraint. They deter impetuous, frivolous and abusive behaviour and litigation. They seek to compensate, at least in part, the successful party who has incurred, sometimes, large expenses to vindicate its rights.
>
> (*See also Thibodeau v Air Canada*, 2007 FCA 115 at para 24).

[21] Having considered the submissions of both parties as to costs, I am of the view that the result of the proceedings, the amount of work involved and the Defendants' rejection of the settlement offers are relevant factors that militate in favour of awarding substantial costs. This conclusion accords with the purposes of imposing costs, which are to regulate, indemnify, and deter. In fact, this action lasted for more than seven years and involved a substantial amount of work on the part of both parties. Moreover, the Plaintiffs made three settlement offers to Defendants who rejected them, and who showed no efforts to settle. In addition, the Defendants' allegations that the Plaintiffs acted in bad faith were rejected by the Court which constitutes another factor to consider when deciding whether increasing costs is warranted (*Air Canada v*

Toronto Port Authority, 2010 FC 1335 at para 17 [*Air Canada*]). This Court has also held that increased costs are justified in situations where an award of costs under the Tariff B would be unjust to the successful party i.e. where a Tariff B award would not properly satisfy the purpose of indemnification (*Ultima Foods Inc v Canada (Attorney General)*, 2013 FC 238 at paras 25-26 [*Ultima Foods*]; *Air Canada* at paras 15-16). This is such a case.

[22] I agree with both parties that a lump sump award is appropriate. The award of a lump sum in the present case is consistent with the "[t]rend in recent case law favouring the award of a lump sum based on a percentage of the actual costs to the party when dealing with sophisticated commercial litigants that clearly have the means to pay for the legal choices they make" (*Eli Lilly v Apotex Inc*, 2011 FC 1143 at para 36 [*Apotex*]). Moreover, a lump sum award presents the advantage of saving time and costs to the parties that would have otherwise resulted from the assessment process (*Abbott Laboratories v Canada (Minister of Health)*, 2007 FC 50 at para 9; *Corsorzio Del Prosciutto Di Parma v Maple Leaf Meats Inc*, 2002 FCA 417 at para 12 [*Consorzio*]).

[23] The Court is satisfied that a full indemnification of the legal fees incurred by the Plaintiffs, on a solicitor-client basis, amounts to $1,271,682.00. While the Plaintiffs are not seeking this amount in fees, the Court may use this total for the purpose of calculating the award (*Consorzio* at para 10; *Apotex* para 73).

[24] In the amended statement of claims of 2011 and 2013, the Plaintiffs modified the requested relief. They renounced their pursuit of declarations that the Defendants had violated

their rights and instead sought only declarations that they were entitled to distribute, advertise, offer for sale and sell their products and that their activities did not infringe or violate any rights of the Defendants. Such modification does not amount to a significant change justifying the exclusion of the period prior to April 2011 included in the calculation of costs as since the beginning, the Plaintiffs sought to be able to sell their SCREAMIN' EAGLE clothing in Canada and this constituted the essence of the litigation. Moreover, this forms part of the decision on the merits of March 4, 2014.

[25] Therefore, the Court sides with the Plaintiffs that the period prior to April 2011 must be included in the calculation of costs. The Court also notes that the Defendants are asking to take into consideration that it was the Plaintiffs who initiated the legal proceedings and that the Defendants were "basically attempting to protect themselves against attacks". However, the Defendants filed a first version of their counterclaims on May 28, 2007, which was later amended, and sought several forms of relief against the Plaintiffs. Therefore, in the period prior to April 2011, the Defendants were not only defending themselves but were themselves pursuing counterclaims against the Plaintiffs. Hence, this Court is of the view that the costs incurred before April 2011 should be included in the calculation.

[26] The Court acknowledges the case law pointing to the imposition of fee awards totalling around one-third of the incurred legal fees, amounting in this case to $423,894.00: see *Consorzio*, *Ultima Foods*, *Apotex* and *Philip Morris* at para 6.

[27] The Court is not prepared to increase the percentage to 50% of the incurred legal fees as the Plaintiffs request. The Court finds that the case law submitted by the Plaintiffs to support a further increase to 50% of the legal fees indicates that such awards are granted in exceptional circumstances, and the Court cannot confirm that such circumstances occurred in the present case.

[28] The Court is also of the view that the amount of disbursements of $118,777.09 is supported by the evidence.

[29] Finally, the Court must determine whether an award equal to double the applicable amount for the period following the August 21, 2013 Offer is warranted.

[30] Rule 420(1) states :

Federal Courts Rules, SOR/98-106	*Règles des Cours fédérales, DORS/98-106*
Consequences of failure to accept plaintiff's offer	Conséquences de la non-acceptation de l'offre du demandeur
420. (1) Unless otherwise ordered by the Court and subject to subsection (3), where a plaintiff makes a written offer to settle and obtains a judgment as favourable or more favourable than the terms of the offer to settle, the plaintiff is entitled to party-and-party costs to the date of service of the offer and costs calculated at double that rate, but not double disbursements, after that date.	420. (1) Sauf ordonnance contraire de la Cour et sous réserve du paragraphe (3), si le demandeur fait au défendeur une offre écrite de règlement, et que le jugement qu'il obtient est aussi avantageux ou plus avantageux que les conditions de l'offre, il a droit aux dépens partie-partie jusqu'à la date de signification de l'offre et, par la suite, au double de ces dépens mais non au double des débours.

[31] The burden of proving that a settlement offer is as favourable or more favourable than the final judgment lies with the party requesting the application of Rule 420, in this case the Plaintiffs (*Apotex Inc v Sanofi-Aventis*, 2012 FC 318 at para 30).

[32] The Court has set out a number of factors to be taken into account in this assessment, and those factors are :

> 39 In order to trigger the double costs rule, an offer must be clear and unequivocal in that the opposite party need only decide whether to accept or reject the offer (*Apotex Inc. v. Syntex Pharmaceuticals*, [2001] FCA 137, [2001] F.C.J. No. 727 (QL), at para. 10). The offer must also contain an element of compromise (or incentive to accept) (*Canadian Olympic Assn. v. Olymel, Société en commandite*, [2000] F.C.J. No. 1725 (QL), at para. 10). The offer must also be presented in a timely fashion such that the benefit would still be derived from the opposite party if accepted (*Sammammas Compania Maritima S.A. v. Netuno (the) Action in rem against the Ship "Netuno"*, [1995] F.C.J. No. 1442 (QL), at paras. 30 and 31). Finally, if accepted, the offer must bring the dispute between the parties to an end (*TRW*, supra, at p. 456). (*MK Plastics Corp v Plasticair Inc*, 2007 FC 1029 at para 39).

[33] Those factors have been met by the Plaintiffs: the Offer was presented at least 14 days before the commencement of the hearing; it was not withdrawn; it did not expire before the commencement of the hearing; it was clear and unequivocal; it was presented in a timely fashion; and it would have brought the dispute between the parties to an end. Also, the Offer did contain an element of compromise as the Plaintiffs suggested that there be no costs or that the costs would be reduced, depending on the date of acceptance by the Defendants (*Culhane v ATP Aero Training Products Inc*, 2004 FC 1667 at para 6; *Kirgan Holding SA v Panamax Leader (The)*, 2003 FCT 80 at para 12).

[34] Given that those factors are met, I must determine if the Offer is indeed as favourable or more favourable to the Defendants than the judgment.

[35] The Offer states that :

> The Plaintiffs, H-D U.S.A., LLC and Harley-Davidson Motor Company, Inc. ("Plaintiffs"), offer to settle this proceeding against the Defendants, Jamal Berrada, 3222381 Canada Inc. and El Baraka Inc. ("Defendants"), in full satisfaction of all claims, on the following non-severable terms:
>
> 1) The Defendants will consent to a Judgment:
>
> a) Declaring that the Plaintiffs are entitled to distribute, advertise, offer for sale and sell throughout Canada HARLEY-DAVIDSON collateral items, including clothing, that display the trade-mark SCREAMIN' EAGLE;
>
> b) Declaring that the sale in Canada of the Plaintiffs' HARLEY-DAVIDSON collateral items, including clothing, that display the trade-mark SCREAMIN' EAGLE, does not and will not infringe or violate any valid rights of the Defendants;
>
> c) Dismissing the Defendants' Counterclaim herein and the relief and remedies sought thereunder;
>
> d) If accepted on or before August 31, 2013, on a without costs basis; and,
>
> e) If accepted between September 1, 2013 and one (1) minute after the commencement of trial, the Plaintiffs are awarded 40% of their costs under Column III of Tariff B of the Federal Courts Rules.

[36] In relevant part, the judgment states that :

> 1) Plaintiffs' action is granted;
>
> 2) Plaintiffs are entitled to distribute, advertise, offer for sale and sell collateral items, including clothing, in connection with their trade-mark SCREAMIN' EAGLE, in association with their registered trade-mark HARLEY-DAVIDSON, throughout Canada but exclusively at HARLEY-DAVIDSON dealerships; as this will not infringe any valid rights of Defendants;
>
> 3) Defendants' counterclaim under paragraph 7*(b)* and sections 19, 20 and 22 of the *Trade-marks Act* are dismissed;
>
> […]
>
> [emphasis added]

[37] The reduction of costs provided for in the Offer proves favourable to the Defendants. However, the Offer and the judgment differ in the use of SCREAMIN' EAGLE by the Plaintiffs in that the Offer provides for the distribution, advertisement, offering for sale and sale of HARLEY-DAVIDSON items that display the trade-mark SCREAMIN' EAGLE throughout Canada without any restriction, whereas the judgment restricts the distribution, advertisement, offering for sale and sale of the HARLEY-DAVIDSON items in connection with their trade-mark SCREAMIN' EAGLE at HARLEY-DAVIDSON dealerships in Canada.

[38] The Plaintiffs presented no evidence with respect to the possible impact of this restriction. Therefore, the Court cannot compare the amount of costs payable by the Defendants as per the present judgment with the amount possibly gained from the restriction to the Plaintiffs' right to distribute, advertise, offer for sale and sell their items in Canada. As already stated, the burden of proving that the Offer was more favourable to the Defendants than the judgment lies with the Plaintiffs, and they have not convinced the Court accordingly. Hence, Rule 420 does not

apply in the present case and the Plaintiffs are not entitled to double costs for the period following the August 21, 2013 Offer.

[39] Therefore, after analyzing the submissions of the parties, the Court awards the Plaintiffs a lump sum of $423,894.00 in fees, plus disbursements in the amount of $118,777.09.

JUDGMENT

THIS COURT'S JUDGMENT is that:

1. The Defendants shall pay forthwith to the Plaintiffs the sum of $423,894.00 plus disbursements of $118,777.09, with a total of $542,671.09. The award includes applicable taxes;

2. The Plaintiffs will earn interest on the costs from the date of this judgment.

"Martine St-Louis"
Judge

FEDERAL COURT

SOLICITORS OF RECORD

DOCKET:	T-605-07
STYLE OF CAUSE:	H-D U.S.A. LLC ET AL. v JAMAL BERRADA ET AL
PLACE OF HEARING:	MONTRÉAL, QUEBEC
DATE OF HEARING:	SEPTEMBER 8, 2014
JUDGMENT AND REASONS:	ST-LOUIS J.
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APPEARANCES:

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Annex 1

Federal Courts Rules, SOR/98-106	*Règles des Cours fédérales*, DORS/98-106
Discretionary powers of Court	Pouvoir discrétionnaire de la Cour
400. (1) The Court shall have full discretionary power over the amount and allocation of costs and the determination of by whom they are to be paid.	400. (1) La Cour a le pouvoir discrétionnaire de déterminer le montant des dépens, de les répartir et de désigner les personnes qui doivent les payer.
[…]	[…]
Factors in awarding costs	Facteurs à prendre en compte
(3) In exercising its discretion under subsection (1), the Court may consider	(3) Dans l'exercice de son pouvoir discrétionnaire en application du paragraphe (1), la Cour peut tenir compte de l'un ou l'autre des facteurs suivants :
(a) the result of the proceeding;	a) le résultat de l'instance;
[…]	[…]
(e) any written offer to settle;	e) toute offre écrite de règlement;
[…]	[…]
(g) the amount of work;	g) la charge de travail;
[…]	[…]
(i) any conduct of a party that tended to shorten or unnecessarily lengthen the	i) la conduite d'une partie qui a eu pour effet d'abréger ou de prolonger inutilement la durée

duration of the proceeding;

[…]

(o) any other matter that it considers relevant.

Tariff B

(4) The Court may fix all or part of any costs by reference to Tariff B and may award a lump sum in lieu of, or in addition to, any assessed costs.

Directions re assessment

(5) Where the Court orders that costs be assessed in accordance with Tariff B, the Court may direct that the assessment be performed under a specific column or combination of columns of the table to that Tariff.

Further discretion of Court

(6) Notwithstanding any other provision of these Rules, the Court may

[…]

(c) award all or part of costs on a solicitor-and-client basis; or

[…]

Consequences of failure to accept plaintiff's offer

de l'instance;

[…]

o) toute autre question qu'elle juge pertinente.

Tarif B

(4) La Cour peut fixer tout ou partie des dépens en se reportant au tarif B et adjuger une somme globale au lieu ou en sus des dépens taxés.

Directives de la Cour

(5) Dans le cas où la Cour ordonne que les dépens soient taxés conformément au tarif B, elle peut donner des directives prescrivant que la taxation soit faite selon une colonne déterminée ou une combinaison de colonnes du tableau de ce tarif.

Autres pouvoirs discrétionnaires de la Cour

(6) Malgré toute autre disposition des présentes règles, la Cour peut :

[…]

c) adjuger tout ou partie des dépens sur une base avocat-client;

[…]

Conséquences de la non-acceptation de l'offre du demandeur

420. (1) Unless otherwise ordered by the Court and subject to subsection (3), where a plaintiff makes a written offer to settle and obtains a judgment as favourable or more favourable than the terms of the offer to settle, the plaintiff is entitled to party-and-party costs to the date of service of the offer and costs calculated at double that rate, but not double disbursements, after that date.

[…]

420. (1) Sauf ordonnance contraire de la Cour et sous réserve du paragraphe (3), si le demandeur fait au défendeur une offre écrite de règlement, et que le jugement qu'il obtient est aussi avantageux ou plus avantageux que les conditions de l'offre, il a droit aux dépens partie-partie jusqu'à la date de signification de l'offre et, par la suite, au double de ces dépens mais non au double des débours.

[…]