



SEP 02 1997

T-323-97

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BETWEEN:

HAVANA HOUSE CIGAR & TOBACCO MERCHANTS LTD.,
EMPRESA CUBANA DEL TABACO trading as
CUBATABACO and HABANOS S.A.

Plaintiffs
(Defendants by Counterclaim)

- and -

MORINO NAEINI, OREX COMMUNICATIONS LTD.
and PACIFIC TOBACCO & CIGARS

Defendants
(Plaintiffs by Counterclaim)

Let the attached footnoted and edited version of the reasons delivered orally from the bench at Vancouver, British Columbia on Thursday, July 31, 1997, be filed to comply with section 51 of the *Federal Court Act*.

OTTAWA, Ontario.
August 12, 1997.

B. Reed

Judge



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HAVANA HOUSE CIGAR & TOBACCO MERCHANTS LTD.,
EMPRESSA CUBANA DEL TABACO trading as
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Plaintiffs
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MORINO NAEINI, OREX COMMUNICATIONS LTD.
and PACIFIC TOBACCO & CIGARS

Defendants
(Plaintiffs by Counterclaim)

REASONS FOR ORDER

(delivered orally from the bench on July 31, 1997)

REED J.

I have not been persuaded that this is an appropriate case in which to grant an interlocutory injunction. My main reason for so concluding is the weakness of the evidence with respect to the allegation that the defendants have been selling counterfeit Cuban cigars. This relates directly to the plaintiffs' claim that irreparable harm will occur if an injunction is not granted.

The allegation that the defendants have been selling counterfeit Cuban cigars is based on three instances of alleged counterfeit sales. The first alleged instance, as counsel for the defendants rightly argued, is without any proper evidentiary foundation. Mr. Ortego, the marketing director of the plaintiff Havana House Cigar & Tobacco Merchants Ltd. ("Havana House"), states that on or about January 3rd a Mr. Jarvis told someone at Havana House that the defendants were selling counterfeit cigars. Mr. Jarvis provided Havana House with the receipts for some cigars he said he bought from one of the defendants, Pacific Tobacco and Cigars, together with the cigars in the boxes in which he alleges they were sold.

Mr. Ortego had no information as to where, when or from whom the cigars were bought. Mr. Jarvis is a competitor of Mr. Naeini. Mr. Jarvis refused to give evidence himself — this is a crucial consideration when evaluating the quality of the evidence. Mr. Jarvis stated he was afraid of Mr. Naeini but he gave no reason, no explanation as to why he should be. As counsel for the defendants pointed out other people who knew Mr. Naeini were not afraid to give evidence against him. Most importantly, there is no reliable evidence to link the receipts that were provided by Mr. Jarvis to the cigars that Mr. Ortego examined and that he states were counterfeit, and of second rate quality.

The second alleged instance of a sale by the defendants, of poor quality counterfeit Cuban cigars, was the purchase by Messrs. Van Pykstra and Cartland on May 7th. Mr. Van Pykstra is another competitor of Mr. Naeini. He admitted in cross-examination that his business would probably be better off if Mr. Naeini were out of business. I do not consider that a terribly significant admission; more important, however, is Mr. Van Pykstra's exclusive business relationship with the plaintiff, Havana House, about which more will be said later.

Mr. Cartland is a private investigator who was hired by Havana House but who is not knowledgeable about cigars. Messrs. Van Pykstra and Cartland purchased part boxes of cigars, six in one box and ten in another, that were on display at Pacific Tobacco and Cigars on May 7. Mr. Cartland had the clerk write on the back of the receipt what was purchased. He put his signature on a sticker which he affixed to the boxes to identify them. The cigars in the boxes were not marked to allow for later identification. The boxes were open at the time of purchase; they were not sealed subsequently except in the sense that they were packaged for delivery to Mr. Ortego by courier. The boxes with cigars in them were sent by Federal Express, from Vancouver to Toronto, to the custody of Mr. Ortego. Mr. Ortego states that the cigars in the boxes were counterfeit and of poor quality. He states that one of the boxes (i.e., the box alone) was genuine but the other

box was one that would have been discarded in Cuba is the production process.

There were a number of things that could have been done by the plaintiffs to increase the confidence the Court might have in the integrity of the evidence. The cigars that were purchased could have been deposited by Mr. Cartland with the Court immediately after purchase for safekeeping, or with some independent third party who was knowledgeable about cigars for both evaluation and safekeeping. Mr. Cartland could have retained custody subject to making them available for inspection. Instead the cigars were delivered into the custody of the plaintiff and they remained there throughout. Mr. Cartland did not even have them in front of him when he signed his affidavit. There is no assurance that the cigars evaluated by Mr. Ortego and that are now in the boxes are the same as those that were purchased from the defendant. The Court cannot be confident that the cigars that Mr. Ortego asserts are counterfeit were purchased from the defendant.

Mr. Naeini says that he remembers the sale to Mr. Van Pykstra (he knew him) and that he sold genuine cigars to him. Mr. Naeini also indicates that he never recalled seeing a maduro (dark) Romeo y Julieta Churchill cigar, which was one of the cigars that Mr. Ortego says was in the

box when he examined the contents. Mr. Cartland could not remember one cigar among those he purchased being noticeably darker than the others.

Mr. Van Pykstra states that both boxes contained counterfeit cigars, he states that all the cigars in the store were counterfeit. Dr. Devlin is one of the few affiants in this case who is not closely associated with any of the parties. He had been a customer of Mr. Naeini on several occasions and is a cigar connoisseur. He swore an affidavit saying he had never seen counterfeit cigars among Mr. Naeini's stock. He also made some rather negative comments about Mr. Jarvis and an allegation that Mr. Jarvis had on at least one occasion sold fake Cuban cigars to a purchaser. Dr. Devlin was not cross-examined on his affidavit.

On May 31st Mr. Ferrari, the controller of Havana House, and Mr. Tromp, the treasurer of that company, purchased cigars from a store in Vancouver called Cigar Connoisseur. They examined boxes of cigars in the store and concluded that some of them contained counterfeit Cuban cigars. Mr. Tromp purchased a box of 19 -- a part box, it was not sealed when it was purchased -- H. Upmann Sir Winston cigars, as well as one Monte Cristo cigar. These were paid for by credit card and both the credit card receipt and the cash register receipt were retained.

Mr. Ferrari alleges that both the cigars in the box and the single cigar were counterfeit. He took the purchases from Vancouver to Havana House in Toronto, and again the cigars were placed in the custody of the plaintiff. The Monte Cristo cigar has disappeared.

Again, there is nothing to prove, with confidence, that the cigars now in the box are those that were purchased. Also important, in this particular instance, the evidence shows that Cigar Connoisseur is not controlled by the defendants. While Mr. Naeini is a shareholder in the company that owns and manages that store, he does not manage or control the store or its purchasing decisions. The store obtains its supplies of cigars from wholesalers other than Orex as well as from Orex. There is evidence that there are a great many substandard Cuban cigars on the market in Canada because the demand for first quality genuine Cuban cigars is far greater than the available supply.

Mr. Naeini's evidence is that the cigars he sells are genuine, that he obtains them from Cuban government stores in Cuba, that he obtains them from House of Horvath, a distributor for Havana House. I am not persuaded that the evidence demonstrates that the quality of the product coming from the Cuban government stores is less than that obtained from Havana House.

Prior to January 1 of this year, Mr. Naeini also obtained the cigars he sells from Havana House. The plaintiff refused to supply him with cigars after that date because he refused to sign an agreement acknowledging that Havana House had ownership in certain trade-marks *and* giving an undertaking that he would not buy or sell any Cuban cigars that were not purchased through Havana House or its distributors. Mr. Naeini was advised by counsel that the second part of the agreement was too broad an undertaking and he should not sign the agreement. As noted, Mr. Van Pykstra is a competitor of Mr. Naeini. He is also one of the merchants who signed the Havana House exclusive purchase agreement. This context adds to my concerns about the integrity of the evidence concerning the alleged sale of counterfeit cigars.

The defendants had for several years done business with the plaintiffs. There had never before been any complaints about the quality of the cigars the defendants sold or that Mr. Naeini's storage facilities (humidor), were less than very good.

The plaintiffs' claim rests upon the fact that they have recently obtained registration as owner of various trade-marks associated with certain Cuban cigars (e.g., Monte Cristo, Romeo y Julieta, Partagas). Havana House obtained registration on the marks over which it claims ownership in

1994 and later. It relies on use since 1988 as the foundation for its claim. Cubatabaco asserts ownership rights in three marks. One registration issued in 1990 and asserts use since 1988 as the foundation of its claim. The others are earlier, one being renewed in 1988.

The evidence shows however that almost all of the trade-marks have been used in Canada for a much longer period of time than the registration or use dates identified. The trade-marks were used in connection with cigars that were sold through a number of distributors and a great many retailers. I think it is clear that counsel for the defendants' argument, that these marks are manufacturer's marks, is quite a strong one. There is no evidence that assignments of trade-mark rights to the plaintiffs were ever made.

Insofar as the law is concerned, I accept that the *RJR MacDonald* case¹ has stated that a low threshold is required when assessing whether there is a serious question to be tried.² I am aware as well, however, that the *RJR MacDonald* case did not deal with a trade-mark case; it was a

1. *RJR-MacDonald Inc. v. Canada (Attorney General)*, [1994] S.C.R. 311.

2. There are two exceptions set out in that case, neither of which applies in this case.

stay case. I am not persuaded that the comments in the *Molson* case³ have been discarded or overruled.

In any event, I do not need to assess whether a serious issue exists. If Mr. Naeini is not selling counterfeit Cuban cigars, and I am not convinced that the evidence establishes that he is, then, the irreparable harm that the plaintiffs allege they will suffer, such as loss of reputation, arising as a result of the sale of poor quality cigars is not well founded. The only harm would be the sales made by Mr. Naeini that might have been made by Havana House, if the Havana House trade-mark registration is valid. The evidence shows, however, that top quality Cuban cigars are in very tight supply and Havana House sells all it can acquire from the Cuban government.

I accept that Mr. Naeini keeps records of his sales. The loss arising from them is certainly quantifiable, and I cannot conclude that irreparable harm has been shown to exist if the injunction is not given. I note that the evidence shows that Mr. Naeini competes at the top end of the retail market and has devoted considerable resources to promoting the sale of Cuban cigars. I note also that the evidence indicates that Havana House sells cigars in Canada that are not -- let's say, that are seconds, that do not meet

3. *Molson Breweries v. Labatt Brewing Co.* (1992), 44 C.P.R. (3d) 242 at 251 (F.C.T.D.).

the quality control parameters for top quality genuine Cuban cigars. These are sold as unmatched bundles, the cigars differ in colour and length.

If I have to consider, then, the balance of convenience although I do not think it is necessary because I have not been convinced that irreparable harm has been proven - the balance of convenience favours the defendants, not the plaintiffs.

These are my reasons for declining to grant the interlocutory injunction that has been sought. Thank you.

FEDERAL COURT OF CANADA
TRIAL DIVISION

NAMES OF SOLICITORS AND SOLICITORS ON THE RECORD

COURT FILE NO.: T-323-97

STYLE OF CAUSE: Havana House Cigar & Tobacco Merchants Ltd. et al v.
Morino Naeini et al

PLACE OF HEARING: Vancouver, B.C.

DATE OF HEARING: July 31, 1997

WRITTEN REASONS FOR ORDER OF THE HONOURABLE MADAME JUSTICE
REED (delivered orally from the bench on July 31, 1997)

DATED: August 12, 1997

APPEARANCES:

Mr. Kenneth McKay

FOR PLAINTIFFS
(Defendants by Counterclaim)

Mr. Michael Manson
Mr. Brian Kingwell

FOR DEFENDANTS
(Plaintiffs by Counterclaim)

SOLICITORS OF RECORD:

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