

Federal Court of Appeal



Cour d'appel fédérale

Date: 20160217

Docket: A-187-15

Citation: 2016 FCA 55

**CORAM: TRUDEL J.A.
SCOTT J.A.
BOIVIN J.A.**

BETWEEN:

**PHILIP MORRIS PRODUCTS S.A. and
ROTHMANS, BENSON & HEDGES INC.**

Appellants

and

**MARLBORO CANADA LIMITED and
IMPERIAL TOBACCO CANADA LIMITED**

Respondents

Heard at Montréal, Quebec, on January 14, 2016.

Judgment delivered at Ottawa, Ontario, on February 17, 2016.

REASONS FOR JUDGMENT OF THE COURT BY:

THE COURT

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REASONS FOR JUDGMENT OF THE COURT

[1] This is an appeal by Philip Morris Products S.A. and Rothmans, Benson & Hedges Inc. (the appellants) from a discretionary Order of a judge of the Federal Court (2015 FC 364) (the Judge) pursuant to paragraph 27(1)(c) of the *Federal Courts Act*, R.S.C., 1985, c. F-7. The Judge ruled that Marlboro Canada Limited and Imperial Tobacco Canada Limited (the respondents) were entitled to elect an accounting of profits or all damages sustained as a result of the

infringement of their rights in the registered trade-mark MARLBORO. The Judge also ordered that pre and post judgment interest would be determined by the reference judge, should the respondents opt for accounting of profits.

[2] This Order came as a result of this Court's decision allowing in part the respondents' appeal of the Federal Court's decision (2010 FC 1099) finding that there was a likelihood of confusion between the appellants' no-name cigarettes and the respondents' MARLBORO, especially in the so-called "dark market", and therefore infringement of the respondents' trademark under paragraph 20(1)(a) of the *Trade-marks Act*, R.S.C., 1985, c. T-13 (2012 FCA 201). Consequently, this Court referred the matter back to the Judge to determine whether the respondents could elect between damages or an accounting of profits and make representations with regards to interests and costs. It is that discretionary Order by the Judge further to this Court's referral that is the subject of this appeal.

[3] The Judge determined that it was appropriate to exercise his discretion and allow the respondents to elect an accounting of profits, on the balance of factors that had been identified by the parties as significant in their submissions before him, namely: the claimant's conduct, the complexity of an accounting of profits, the infringer's conduct, the claimant's damages, and the presence of actual confusion.

[4] The appellants challenge the Judge's Order on four grounds:

- First, they assert that the Judge applied an incorrect legal test by ignoring the restitutionary purpose of an accounting of profits;
- Second, the appellants claim that the Judge erred when he determined that any reference on damages could be equally complex as an accounting of profits;

- Third, they argue that the Judge erred by failing to require the respondents to demonstrate a positive basis for his exercise of discretion, holding instead that they were entitled to it absent a bar to its exercise;
- Finally, the appellants argue that the Judge erred in failing to recognize that an accounting of profits would seriously prejudice them in view of the current ongoing challenge by the respondents to their redesigned ROOFTOP packaging (Federal Court File T-1280).

I. Restitutionary Purpose

[5] The appellants argue that in order for the equitable remedy of an accounting of profits to be granted, it must be used for a restitutionary purpose, a prophylactic purpose, or both. They contend that the Supreme Court elaborated this test in *Strother v. 3464920 Canada Inc.*, 2007 SCC 24, [2007] 2 S.C.R. 177 at paragraphs 74-77 [*Strother*], and that the Judge failed to apply it by ignoring the restitutionary purpose of an accounting of profits.

[6] Because they had not actually used the respondents' property, the appellants argue, they were not unjustly enriched. This, they submit, should have led to a conclusion that an accounting of profits would not serve the restitutionary purpose.

[7] The facts in *Strother* are different from the present case since it dealt with a breach of fiduciary duty by a solicitor, and the restitutionary purpose of the remedy actually had no application in that case. The appellants have not convinced us that *Strother* presents a test, and if it does, that it must necessarily be applied to the present case, or that there was any defect in the Judge's conclusion at paragraph 21 that the set of relevant factors will vary according to the different circumstances in each case. Nevertheless, the Judge did refer to *Strother* at paragraph 17 of his reasons and we are satisfied that he turned his mind to it in his analysis.

[8] The Judge acknowledged that his discretion to grant equitable remedies is not untrammelled (Judge's reasons at paragraph 20, referring to *Apotex Inc. v. Bristol-Myers Squibb Co.*, 2003 FCA 263, 308 N.R. 152). He therefore needed to "weigh the relevant factors in light of the equitable purposes of the remedy, bearing in mind that the [respondents] have no right to an accounting of profits but that they should not be denied that option in the absence of any compelling reasons" (Judge's reasons at paragraph 21).

[9] The Judge's analysis clearly indicates that he did turn his mind to the restitutionary purpose of the remedy as he weighed the relevant factors in this case. Discussing the factor of the claimant's damages, he clearly acknowledged the appellants' position that the respondents were not entitled to restitution through an accounting of profits, at paragraph 36. After reviewing the parties' positions on damages and the evidence on that issue, the Judge indicated that although the evidentiary issues were not to be decided at the entitlement stage, they tended to undermine the appellants' argument "that the sales of their no-name product do not represent an unjust enrichment requiring a restitutionary remedy" (Judge's reasons at paragraph 39). He also addressed unjust enrichment, implicitly invoking the restitutionary purpose of an accounting of profits, when considering the parties' submissions with respect to confusion.

[10] In sum, the Judge gave due consideration to the relevance of restitution in his analysis, and the appellants have not convinced us that this Court should intervene on this point.

II. Complexity

[11] Second, we find no merit in the appellants' argument that the Judge erred in his conclusion that the complexity of an accounting of profits is neutral as a factor because the calculation of damages could be as complex as an accounting of profits.

[12] The Judge had the benefit of hearing the parties' positions and arguments on the complexity of calculating damages, knowing full well that these submissions were necessarily speculative at this stage since the actual calculation had not taken place and was not before him.

[13] At paragraph 31, the Judge provided specific reasons why the calculation of damages would likely be complex in this case supported by doctrinal authority for the proposition that calculation of damages can be as complex as an accounting of profits.

[14] Reading the Judge's reasons as a whole, it is clear that he considered all of the issues and the evidence before him in coming to his conclusion that calculation of damages was likely to be as complex as an accounting of profits. Again, there is no reviewable error.

III. Whether the appellants must show basis for the equitable remedy

[15] Third, the appellants claim that the onus was on the respondents to show their entitlement to the accounting of profits by establishing a causal link between the damages suffered and the use of their property by the appellants.

[16] They rely on *Janssen-Ortho Inc. v. Novopharm Ltd.*, 2006 FC 1234, [2006] F.C.J. No. 1535 (QL) [*Janssen*] for the proposition articulated by Hughes J. that it is necessary for a party seeking an equitable remedy, such as an election of profits, to “show some basis” for the exercise of equity (*Janssen* at paragraph 132).

[17] We find this to be of no assistance to the appellants. In the present matter, it is clear that a causal link has been established since this Court has determined that there was confusion and infringement, which is the source of the appellants’ unjust enrichment (Judge’s reasons at paragraph 42).

[18] We further note that the statement in *Janssen* on which the appellants rely stands alone in the jurisprudence and is not supported by any prior case law. The Judge did not err when he stated that he would not deny the respondents an accounting of profits in the absence of compelling reasons (Judge’s reasons at paragraph 21).

IV. Prejudice

[19] Finally, we must also reject the appellants’ argument that they will be prejudiced if the respondents elect an accounting of profits, in view of the parallel litigation that has been initiated by the respondents alleging infringement of their MARLBORO trademark further to the introduction in July 2012 of the appellants’ redesigned ROOFTOP packaging.

[20] The Judge acknowledged and considered the appellants' position on this issue at paragraph 27 of his reasons, but concluded nonetheless that an accounting of profits should be available.

[21] We note that the evidence and factual determinations to be presented in the reference and new infringement proceedings will necessarily be similar, to the extent that the appellants intend to rely on their redesigned ROOFTOP packaging as a non-infringing alternative. We expect the respondents will dispute that position. Consequently, whether the ROOFTOP packaging infringes the MARLBORO trademark will undoubtedly be an issue in both the reference and the infringement proceeding.

[22] When either the infringement proceeding or the reference is ready to be heard, the other proceeding may be stayed until a decision is rendered. We agree with the respondents that this will effectively avoid potential prejudice posed by the parallel proceedings. Further, the Judge did not ignore this issue, and it is not the role of this Court to reweigh each factor considered by the Judge in a discretionary decision.

[23] In sum, the appellants have failed to demonstrate that the Judge committed any error that would warrant this Court's intervention against his discretionary decision to allow the respondents to elect between damages or an accounting of profits for the appellants' infringement of their trademark.

[24] For these reasons, this appeal will be dismissed with costs set at \$10,000 inclusive of tax and disbursements.

“Johanne Trudel”

J.A.

“A.F. Scott”

J.A.

“Richard Boivin”

J.A.

FEDERAL COURT OF APPEAL

NAMES OF COUNSEL AND SOLICITORS OF RECORD

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and ROTHMANS, BENSON &
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CANADA LIMITED and IMPERIAL
TOBACCO CANADA LIMITED

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REASONS FOR JUDGMENT OF THE COURT BY: TRUDEL J.A.
SCOTT J.A.
BOIVIN J.A.

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