

PUBLIC

File No.: CT-2015-010

COMPETITION TRIBUNAL

IN THE MATTER OF the Competition Act, R.S.C. 1985, c. C-34, as amended;

AND IN THE MATTER OF an Application by Audatex Canada, ULC for an Order pursuant to section 103.1 granting leave to make application under section 75 of the *Competition Act*.

BETWEEN:

COMPETITION TRIBUNAL TRIBUNAL DE LA CONCURRENCE FILED / PRODUIT November 17, 2015 CT-2015-010 Jos LaRose for / pour REGISTRAR / REGISTRAIRE	
OTTAWA, ONT	# 55

AUDATEX CANADA, ULC

Applicant

- and -

CARPROOF CORPORATION, TRADER CORPORATION, AND eBAY CANADA LIMITED

Respondents

**REPLY MEMORANDUM OF FACT AND LAW OF THE APPLICANT
 IN SUPPORT OF APPLICATION FOR LEAVE TO MAKE AN APPLICATION
 UNDER SECTION 75 OF THE *COMPETITION ACT*
 PURSUANT TO SECTION 103.1 OF THE *COMPETITION ACT***

1. The Applicant, Audatex Canada, ULC (“**Audatex**”), makes the following submissions in reply to the written representations of CarProof Corporation (“**CarProof**”), TRADER Corporation (“**Trader**”) and Marktplaats B.V. (“**Marktplaats**”) pursuant to Rule 120 of the *Competition Tribunal Rules*.

2. Audatex has met the test for leave. It has provided reason to believe that:

- (a) its business is directly and substantially affected by the Respondents’ refusal to deal;
- (b) the automobile listings data are a product in ample supply;
- (c) it is willing to meet the usual trade terms for this product;
- (d) it is unable to obtain an adequate supply of this product from other sources; and

- (e) the Respondents’ refusal to deal is likely to have an adverse effect on competition in the market for total loss valuation and partial loss estimating services.

Audatex respectfully submits that the Tribunal should exercise its discretion to grant leave for Audatex to bring an application under section 75 of the *Competition Act*.

A. Audatex’s business is directly and substantially affected by the Respondents’ refusal to deal

3. The written representations of the Respondents seek to raise the standard that has been repeatedly applied at the section 103.1 leave stage. The leave stage is a summary screening process.¹ Audatex is only required to provide “sufficient credible evidence” to satisfy the Tribunal that there is a “reasonable possibility” that its business is directly and substantially affected by a refusal to deal.² The Respondents argue that since Audatex has not yet felt the full effects of CarProof’s anti-competitive actions and the Respondents’ refusal to deal, it has not met this element of the leave test. Their position is incorrect.

[REDACTED]

[REDACTED]

[REDACTED]

¹ *Barcode Systems Inc. v. Symbol Technologies Canada ULC*, 2004 Comp. Trib. 1 at para. 20 [*Barcode*].
² *Ibid* at para. 12.
³ Affidavit of Alberto Cairo, sworn November 17, 2015 at para. 17 (“**Cairo Affidavit**”).
⁴ Cairo Affidavit at para. 18.
⁵ Cairo Affidavit at para. 19.
⁶ Cairo Affidavit at para. 19.

Audatex's business will be directly and substantially affected

6. Audatex has clearly demonstrated that direct and substantial harm *will* occur to its business. The Tribunal has granted leave on several occasions to bring a refusal to deal application in cases where the Applicant had not yet suffered any harm, but was able to establish that harm would likely occur once supply was discontinued.⁹ In *Nadeau*, the Respondents indicated that they would be cutting off their supply of chickens to the Applicant. The Applicant put forward evidence that this would lead to a loss of 60% of its production capacity. The Respondents argued that since supply had not yet ceased, the Applicant could not demonstrate direct and substantial harm. The Tribunal held that an Applicant is not required to wait for the harm to occur before seeking to prevent it:

The uncontested evidence before the Tribunal indicates that the Respondents will cut off supply shortly. *In my view, one should not have to wait until harm actually occurs* before bringing an application under subsection 103.1(1) of the Act.¹⁰

7. Audatex has demonstrated that:

(a) Revenue from its total loss valuation services amounts to [REDACTED] of its revenue;¹¹

(b) [REDACTED]
[REDACTED]
[REDACTED]

⁷ Cairo Affidavit at para. 15.

⁸ Affidavit of Gabor Toth, sworn October 1, 2015, at paras. 42-46 [**Toth Affidavit**]; Cairo Affidavit at para. 19.

⁹ *Robinson Motorcycle Limited. v. Fred Deeley Imports Ltd.*, 2005 Comp. Trib. 6; *B-Filer Inc. v. The Bank of Nova Scotia*, 2005 Comp. Trib. 38 [**B-Filer**]; *Nadeau Poultry Farm Limited v. Groupe Westco Inc. et al.*, 2008 Comp. Trib. 7 [**Nadeau**].

¹⁰ *Nadeau* at para. 25.

¹¹ Toth Affidavit at para. 13.

¹² Toth Affidavit at paras. 42-44.

- (c) Revenue from insurance companies for partial loss estimating services amounts to [REDACTED] of its revenue;¹³
- (d) [REDACTED]
[REDACTED]
[REDACTED]
- (e) Revenue from automobile repair shops for partial loss estimating services amounts to [REDACTED] of its revenue;¹⁵ and
- (f) [REDACTED]
[REDACTED]

8. The Respondents allege that Audatex has only provided speculative evidence of a link between its total loss valuation services and its partial loss estimating services. However, Audatex has filed as examples its Master Services Agreements with [REDACTED] and [REDACTED] which both [REDACTED] [REDACTED]¹⁷ These agreements are representative of the agreements that Audatex has with its insurance company customers.¹⁸ Audatex has clearly established that [REDACTED] [REDACTED] It is reasonable to expect that if Audatex is not performing up to standard [REDACTED], the insurance company would likely [REDACTED] [REDACTED]

9. Audatex has provided more than sufficient credible evidence to demonstrate a reasonable possibility that its inability to obtain automobile listings data will have a direct and substantial effect on its business.

¹² Toth Affidavit at paras. 42-44.
¹³ Toth Affidavit at para. 13.
¹⁴ Toth Affidavit at para. 13.
¹⁵ Toth Affidavit at para. 13.
¹⁶ Toth Affidavit at para. 13.
¹⁷ Toth Affidavit, Ex. 1.
¹⁸ Toth Affidavit at para. 11.

B. Automobile Listings Data are a Product in Ample Supply

10. The Respondents argue that automobile listings data are not a product in ample supply within the meaning of section 75 of the *Competition Act* (the “**Act**”). The Respondents rely on the Tribunal’s 1997 decision in *Director of Investigation and Research v. Warner Music Canada Ltd.*¹⁹ However, in order for *Warner Music* to apply, the following elements must both be present:

- (a) The “product” sought by the applicant must be intellectual property (“IP”) licences; and
- (b) The respondent(s) must have exclusive IP rights to the work.

11. *Warner Music* provides no assistance to the Respondents in this case because:

- (a) The product sought by Audatex is automobile listings data, not IP licences;
- (b) The Respondents do not have an exclusive copyright to:
 - (i) the automobile listings data provided by automobile owners; or
 - (ii) any original compilation of this data.

12. As a result, the general rule from *Canada (Director of Investigation and Research, Competition Act) v. Xerox Canada Inc.*²⁰ applies. The Tribunal is entitled to make an order for the supply of the automobile listings data regardless of any claims by the Respondents that it is confidential and/or proprietary in nature.

Warner Music only applies to the supply of licences over material that is subject to exclusive IP rights

13. In *Warner Music*, the Commissioner of Competition brought an application against Warner Music Canada Ltd. and its affiliates (“**Warner**”) alleging that their refusal to grant copyright licences to BMG Canada to make sound recordings from their master recordings was an impermissible refusal to deal contrary to section 75 of the Act. Warner contracted with artists to

¹⁹ (1997), 78 C.P.R. (3d) 321 [*Warner Music*].

²⁰ [1990] C.C.T.D. No. 18 [*Xerox*].

make these master recordings and had an exclusive copyright over these master recordings in Canada.

14. The Tribunal recognized that Parliament grants to copyright holders the right to exclude others, and this aspect is fundamental to copyright. It would be inconsistent to hold that Warner was engaging in anti-competitive practices by simply exercising a right that had been specifically granted by Parliament.²¹ Given the exclusive nature of the copyright enjoyed by Warner, it could not be considered a “product” in “ample supply” within the meaning of section 75. The Tribunal held:

Having considered the submissions discussed here and the additional points in the parties' memoranda, the Tribunal has concluded that on the facts of this case the licences are not a product as that term is used in section 75 of the Act, because on a sensible reading section 75 does not apply to the facts of this case. Although a copyright licence can be a product under the Act, it is clear that the word "product" is not used in isolation in section 75, but must be read in context. ***The requirements in section 75 that there be an "ample supply" of a "product" and usual trade terms for a product show that the exclusive legal rights over intellectual property cannot be a "product" -- there cannot be an "ample supply" of legal rights over intellectual property which are exclusive by their very nature and there cannot be usual trade terms when licences may be withheld.***²² [emphasis added]

15. The Tribunal's decision in *Warner Music* is predicated upon the fact that (1) at issue was an "exclusive legal right" over what was "clearly intellectual property"; (2) Warner enjoyed an exclusive copyright over the sound recordings, and (3) the alleged “product” in question was a licence to those recordings. *Warner Music* only applies to these narrow circumstances. The balance of the case law demonstrates that licences may be a product in ample supply.

16. In *Kraft Canada Inc. v. Euro Excellence Inc.*,²³ the Supreme Court of Canada held that a “non-exclusive licensee has no property rights in the copyright, and enjoys only contractual rights vis-à-vis the owner-licensor. As a result, it cannot sue for infringement.”²⁴ A licensee that only enjoys a non-exclusive licence does not have the ability to enforce the copyright and exclude others, which was the policy driving the decision in *Warner Music*.²⁵

²¹ *Ibid* at para. 30.

²² *Ibid*.

²³ 2007 SCC 37.

²⁴ *Ibid* at para. 28.

²⁵ See also *Tremblay c. Orio Canada Inc.*, 2013 FCA 225.

17. *Cinémas Guzzo Inc. v. Canada (Attorney General)*,²⁶ involved access to first-run films from distributors that held licensing rights to those films in Canada. A theatre made a complaint to the Competition Bureau that distributors had engaged in a refusal to deal contrary to section 75 of the Act by entering into exclusive arrangements to provide these films to Famous Players and Cineplex Odeon. The Commissioner informed the applicant that the inquiry was being discontinued, partially on the basis that, in light of the decision in *Warner Music*, licences were not a “product” within the meaning of section 75 of the Act. The Applicant applied to the Federal Court for judicial review.

18. The Federal Court held that the Commissioner’s decision was an administrative decision that was not subject to judicial review. However, in *obiter*, Rouleau J. stated that the Commissioner’s reliance on *Warner Music* was misplaced. The product that the applicant was seeking access to was the films themselves, not a licence to the films. Additionally, even if the applicant was seeking a licence, licences can be a product within the meaning of section 75:

In my view, ***Warner does not apply in the case at bar***. In that case, the dispute was between a licensee and distributors and concerned the granting of licences. In the present case, the dispute is instead between distributors and movie theatre operators over the acquisition of copies of films, not licences. However, ***in my view, the term "product" does, within the meaning of the Act, include licences, since to conclude otherwise would prevent the Act from having any application at all in the area of intellectual property.***²⁷ [emphasis added]

19. Finally, in *The Used Car Dealers Association of Ontario v. Insurance Bureau of Canada*,²⁸ the Used Car Dealers Association of Ontario (“UCDAO”) sought access to insurance claims data maintained by the Insurance Bureau of Canada (“IBC”) for inclusion in its Auto Check Vehicle History Reports. UCDAO applied for leave to bring a refusal to deal application under section 75. The case involved data of a similar nature to that at issue in this case, and IBC made a similar argument that an order could not be made under section 75 to require it to provide its proprietary claims data.²⁹ The Tribunal rejected IBC’s arguments and granted leave.

20. *Warner Music*, properly construed in light of other holdings of the Tribunal and the Federal Court, does not assist the Respondents as 1) Audatex is seeking the provision of the underlying

²⁶ 2005 FC 691, aff’d 2006 FCA 160.

²⁷ *Ibid* at para. 56.

²⁸ 2011 Comp. Trib. 10.

²⁹ Responding Submissions of IBC, online: <http://www.ct-tc.gc.ca/CMFiles/CT-2011-006_fMemorandum%20of%20fact%20&%20law_13_45_7-22-2011_1499.pdf>.

data, not an IP licence, and 2) the Respondents do not have any copyright over the automobile listings data. The automobile listings data itself is in ample supply, and is a product that may be subject to a refusal to deal contrary to section 75.

Automobile listings data is the product at issue

21. Audatex seeks the supply of raw automobile listings data, not the particular fashion in which it has been organized on the Respondents' websites [REDACTED].³⁰ Audatex requires supply of the following data fields:

- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]

³⁰ Cairo Affidavit at para. 4.

22. In the Data Licensing Agreement between Audatex and Trader, which governed the provision of automobile listing data from September 1, 2009 to August 31, 2015,³² [REDACTED]

23. Audatex does not require any particular arrangement, order, or formatting of the data that can be considered copyrighted.³⁵ Audatex only requires the raw data itself, that is, certain data fields provided in automobile listings by users to Trader and Marktplaats.³⁶ These types of data fields are the product at issue.

The Respondents are not the copyright owners of the automobile listings data

24. It is clear that none of the Respondents enjoy an exclusive proprietary right over the automobile listings data at issue. Trader and Marktplaats have been granted non-exclusive copyright licences in respect of certain rights by the website users that post these listings on their respective sites. [REDACTED]

25. The Trader Web Services Terms of Use provides:

When you submit User Content to the Website, you retain ownership of copyright and other intellectual property rights in that content, but ***you grant Trader a perpetual, irrevocable, worldwide, royalty-free, non-exclusive, transferable and sublicenseable license to use, modify, reproduce, make available, and redistribute it*** in any form, format or media now known or later developed, without any requirement for attribution or compensation to you.³⁷
[emphasis added]

³¹ Cairo Affidavit at para. 2.

³² Toth Affidavit at paras. 19-20.

³³ Data Licensing Agreement, s. 3, Ex. 5 to the Toth Affidavit.

³⁴ Data Licensing Agreement, Ex. "A", Ex. 5 to the Toth Affidavit.

³⁵ Cairo Affidavit at para. 4.

³⁶ Cairo Affidavit at para. 2.

³⁷ AutoTrader – Privacy Statement, online: <<http://www.autotrader.ca/general/info/privacy.aspx>> accessed on 2015-11-10.

26. Similarly, the Kijiji Terms of Use provides:

When you give us content, you are granting us a non-exclusive, worldwide, perpetual, irrevocable, royalty-free, sub-licensable right to exercise the copyright, publicity, and database rights to that content.³⁸ [emphasis added]

27. Trader and Marktplaats have been granted licences to use the content in certain ways; however, the users retain ownership over it. In *Century 21 Canada Limited Partnership v. Rogers Communications Inc.*,³⁹ a real estate brokerage had Copyright License Agreements with its realtors that permitted the brokerage to promote the realtor's listings on its website. The court held that the brokerage did not own a copyright over the listings on the website, as it only was granted a non-exclusive licence:

The licence in this instance is not exclusive as it fails to state such. It simply grants a right to Century 21 to use the Works. Century 21 does not possess a proprietary interest or the grant of an interest in the infringed works. As a result, Century 21 can only enforce licencing, not copyright, infringement to the limited extent granted to it by the licence. In this case, that is the right to use the Works.⁴⁰ [emphasis added]

Likewise, Trader and Marktplaats cannot enforce the copyright in the content uploaded to their websites.

28. The fact that the Respondents only have a non-exclusive copyright licence to use the automobile listings data means that Respondents do not have the ability to exclude all others from obtaining access to the automobile listings data. The user is certainly not prohibited from making identical automobile listings on Auto Trader, Kijiji, and other such platforms. In fact, many users may do just that in order to maximize the contact points for their advertisement.⁴¹

No copyright subsists in the manner in which Trader and Marktplaats have compiled the automobile listings data

The manner of presenting the listings on its website

29. Copyright cannot subsist in the automobile listings data on the basis that Trader and Marktplaats have compiled it in an original way. Audatex recognizes that Trader and Marktplaats take the automobile listings data provided by consumers and present the information on their

³⁸ Policies – Kijiji Helpdesk, online: <<http://help.kijiji.ca/helpdesk/policies>> accessed on 2015-11-10.

³⁹ 2011 BCSC 1196.

⁴⁰ *Ibid* at para. 179.

⁴¹ Cairo Affidavit at para. 5, Ex. 2.

respective websites in a prescribed fashion. However, merely presenting the automobile listings data is not a sufficiently unique work that attracts copyright protection. Additionally, Marktplaats own actions indicate that it does not consider itself to have any IP rights in the particular selection or arrangement of the data on its site. In the Data Provision Agreement between CarProof and Marktplaats, [REDACTED]

This passage shows that Marktplaats is not protecting the specific form of “selection or arrangement” employed on the Kijiji website, but the data itself. Further, even if it were, Audatex has no interest in the “selection or arrangement.”

The [REDACTED]

30. Marktplaats argues that by [REDACTED], it has produced a copyrighted work. That is not the case. To attract copyright, a work must be sufficiently original. The test for originality in Canadian copyright law was extensively reviewed by the Supreme Court in *CCH Canadian Ltd. v. Law Society of Upper Canada*.⁴³ The Court found that skill and judgment are essential to a finding of originality:

For a work to be “original” within the meaning of the Copyright Act, it must be more than a mere copy of another work. At the same time, it need not be creative, in the sense of being novel or unique. What is required to attract copyright protection in the expression of an idea is an exercise of skill and judgment. By skill, I mean the use of one’s knowledge, developed aptitude or practised ability in producing the work. By judgment, I mean the use of one’s capacity for discernment or ability to form an opinion or evaluation by comparing different possible options in producing the work. This exercise of skill and judgment will necessarily involve intellectual effort. ***The exercise of skill and judgment required to produce the work must not be so trivial that it could be characterized as a purely mechanical exercise.***⁴⁴ [emphasis added]

31. The [REDACTED] is a purely mechanical exercise that does not attract copyright protection. Marktplaats has not demonstrated any originality in the compilation beyond the bald assertion that [REDACTED]

⁴² Affidavit of Scott Neil, sworn November 5, 2015, at para. 25 [“Neil Affidavit”].

⁴³ [2004] 1 S.C.R. 339.

⁴⁴ *Ibid* at para. 16.

32. [REDACTED]. No originality, skill or judgment warranting copyright protection is exercised: all that is done is to [REDACTED] [REDACTED], rather than a data point created by Marktplaats or unique to Marktplaats. Merely aligning factual data in a non-original way is not sufficient to attract copyright protection.⁴⁵ Further, where the information is arranged according to industry standards, the amount of skill, labour and judgment exercised is minimal and will not meet the originality threshold.⁴⁶ Similarly, when an idea can only be expressed in a limited number of ways, the expression will not be protected.⁴⁷

33. Marktplaats has asserted that the size of the database, and the expense that it has gone to in order to produce it are relevant. However, the Supreme Court of Canada has noted that, when considering originality, “it is not the quantity which was reproduced that matters as much as the quality and nature of what was reproduced.”⁴⁸

34. The automobile listings data is arranged in an industry standard fashion, providing standard information required to sell automobiles. There are only a limited number of ways in which this type of data can be expressed. No amount of skill, labour or judgment is required to arrange this standard data into a useful format. [REDACTED] is thus not a compilation of sufficient originality to attract copyright protection.

The Tribunal has the jurisdiction to order the supply of a proprietary product

35. In normal circumstances, outside the narrow window in which *Warner Music* was meant to apply, the general rule is that the Tribunal may order the supply of a product notwithstanding the fact that it may be confidential and/or proprietary. In *Xerox*, the Commissioner brought a refusal to deal application against Xerox for refusing to supply parts for its photocopiers to independent service providers, in order to keep the “margin-rich area” of service revenue exclusive to its own maintenance service providers. Xerox argued that the Tribunal should not force it to supply parts

⁴⁵ *Distrimed Inc. v. Dispill Inc.*, 2013 FC 1043 at para. 323 (F.C.);

⁴⁶ *Denturist Group of Ontario v. Denturist Assn. of Canada*, 2014 FC 989 at para. 65.

⁴⁷ *Red Label Vacations Inc. v. 411 Travel Buys Ltd.*, 2015 FC 19 at para. 98.

⁴⁸ *Robertson v. Thomson Corp.*, 2006 SCC 43 at para. 38.

to these entities because those parts were proprietary to Xerox. The Tribunal held that such an order could issue notwithstanding the proprietary nature of the parts:

There is no compelling reason flowing from either the legislative text of section 75 or from general economic principles which requires that proprietary replacement parts should not be considered to be a relevant product for section 75 purposes.⁴⁹

C. Audatex is willing and able to meet the usual trade terms for automobile listings data

36. CarProof asserts that it is a usual trade term for entities, when discussing the provision of listings data, to resolve all disputes between all affiliated parties as part of a “multifaceted value-exchange.” Audatex’s unwillingness, so the argument goes, to force HyperQuest, Inc. (“**HyperQuest**”), Lynx Services, LLC (“**Lynx**”), and other US affiliates of Audatex, to provide estimatics data to CarProof demonstrates their unwillingness to meet this usual trade term. This argument is misplaced in two key aspects. First, the numerous data supply agreements that have been filed in this case support that usual trade terms do *not* include a resolution of unrelated disputes, they simply reflect an exchange of data for valuable consideration. Second, although not a usual trade term, Audatex was willing to negotiate a resolution of the HyperQuest and Lynx claims as part of a global agreement between the two entities. The failure to reach an agreement was as a result of additional onerous and extraneous concessions demanded by CarProof.

The Agreements reflect an exchange of data for valuable consideration

37. All of the agreements filed by the parties in these proceedings reflect an exchange of data for valuable consideration. There is no suggestion that the agreements are part of a larger global settlement of all services and claims between the two contracting parties:

- (a) The VINSource Data License Agreement between Audatex and CarProof, dated April 17, 2006, contemplates [REDACTED] in return for [REDACTED],⁵⁰
- (b) The Data License Agreement between Audatex and Trader, dated September 1, 2009, provides that Audatex [REDACTED] [REDACTED],⁵¹

⁴⁹ Xerox at para. 71.

⁵⁰ Affidavit of Paul Antony, sworn November 5, 2015 at para. 15, Ex. 2 [“**Antony Affidavit**”].

(c) The Data Provision Agreement between CarProof and Marktplaats, dated [REDACTED], provides [REDACTED],⁵²

(d) [REDACTED],⁵³

(e) The Data Provision Agreement between Audatex and [REDACTED], dated March 1, 2015, provides that [REDACTED]

(f) The Data Provision Agreement between Audatex and [REDACTED], dated August 18, 2015, provides that [REDACTED]

(g) The Data Provision Agreement between Audatex and [REDACTED], dated August 24, 2015, provides that [REDACTED].⁵⁶

(h) [REDACTED]

⁵¹ Toth Affidavit at para. 19, Ex. 5.
⁵² Neil Affidavit at paras. 18-20, Ex. B.
⁵³ Antony Affidavit at para. 17, Ex. 4.
⁵⁴ Toth Affidavit at para. 26, Ex. 11.
⁵⁵ Toth Affidavit at para. 27, Ex. 12.
⁵⁶ Toth Affidavit at para. 28, Ex. 13.
⁵⁷ Antony Affidavit at para. 30, Ex. 5.
⁵⁸ Antony Affidavit at para. 30, Ex. 6.

[REDACTED]

[REDACTED]

38. CarProof has filed evidence of [REDACTED].⁵⁹ CarProof alleges that these negotiations demonstrate its unique definition of “usual trade terms” not reflected in the nine agreements detailed above. These negotiations actually undercut CarProof’s assertion as [REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED] CarProof’s own actions demonstrate that a “multifaceted value-exchange” is not a usual trade term in this market.

40. None of the agreements that have been filed include or in any way reference concessions in unrelated dealings with affiliated companies. One party receives data, the other party receives valuable consideration either in the form of money or services. The assertion by CarProof that it is a usual trade term that parties negotiate the provision of data as part of a value-exchange that encompasses all services and claims that may exist between the parties and their affiliates is simply not supported by the evidence. While parties may negotiate the provision of data as part of a broader value-exchange, it is not a usual trade term.

Additional Concessions Demanded by CarProof

41. Audatex and CarProof exchanged without prejudice communications between in August and September 2015 in order to negotiate a resolution of various issues between them. Audatex did not include these communications in its initial application record as it wished to respect settlement privilege. However, since CarProof has referred to these communications, fairness requires that

⁵⁹ Antony Affidavit at paras. 51-54 , Exs. 20-22.

⁶⁰ Antony Affidavit, Ex. 22.

Audatex be given an opportunity to present the full record in order to correct certain statements made by CarProof to the Tribunal.⁶¹

42. Audatex’s primary goal from the start of its negotiations with CarProof in November 2014 has been obtaining access to Canadian automobile listings data which are [REDACTED] to its Canadian operations. [REDACTED]

[REDACTED]⁶² Audatex preferred to limit the exchange to a simple cash-for-data exchange similar to the industry practice set out above. The resolution of other services and claims could occur on their own basis for the appropriate consideration.

43. When it became clear that CarProof had locked up exclusive access to the Canadian automobile listings data from Trader and Marktplaats and would not provide this data without 1) Audatex North America, Inc. extending its [REDACTED] Data License Agreement with CarProof, 2) Solera providing HyperQuest data, and 3) Solera providing data from Lynx, (the “**Unrelated Concessions**”) Audatex began negotiating in good faith to achieve a resolution of these issues.⁶³ Audatex was willing to consider all reasonable proposals to conclude an agreement with CarProof due to the importance of the Canadian automobile listings data to its business.

44. However, when Audatex engaged in negotiations on a framework that included each of these items, CarProof began demanding additional onerous terms.

45. On August 25, 2015, CarProof sent an e-mail to Solera enclosing a draft interim agreement that included the Unrelated Concessions as well as:

- [REDACTED]
- [REDACTED]
- [REDACTED]

⁶¹ *Woodglen & Co. v. Owens*, 1995 CarswellOnt 362 at para. 31 (Gen. Div.).

⁶² Toth Affidavit at para. 36.

⁶³ Affidavit of Jason Brady, sworn November 17, 2015, at para. 18 [“**Brady Affidavit**”].

D. Audatex is unable to obtain an adequate supply of automobile listings data

49. CarProof claims that Audatex is able to obtain an adequate supply through resorting to 1) car dealership listings data from aggregators such as Authenticom, Oasis, CDK Global and Reynolds & Reynolds and 2) sold data from providers such as J.D. Power and Associates, government registries, insurance companies and financial institutions. These sources of listings data are not adequate [REDACTED]

50. CarProof itself has recognized that these alternative sources are not adequate [REDACTED]
[REDACTED] In its letter to Audatex, dated July 13, 2015, CarProof stated:

[REDACTED]

[REDACTED]
[REDACTED] [emphasis added]

51. Practically, Audatex would not have undertaken the lengthy negotiations with CarProof that it did if sufficient alternatives were available in the market. Both Audatex and CarProof were aware that the private automobile listings data from Trader and Marktplaats are a [REDACTED] input for Audatex's business.⁷⁰

52. The dealership listings aggregators provide some listings data for automobiles being sold by dealerships, however they do not provide any listings data for automobiles being sold by private sellers. Sufficient private listings data is a [REDACTED] input to Audatex's Valuation Reports because they are the comparables that are most readily understood and verifiable by consumers that receive the Valuation Reports from insurance companies.⁷¹ Consumers that receive valuation estimates from their auto insurance provider that they disagree with may check Auto Trader and Kijiji to verify the comparables. If they locate a comparable automobile that is not included in the

⁶⁹ Toth Affidavit, Ex. 14.

⁷⁰ Cairo Affidavit at para. 10.

⁷¹ Cairo Affidavit at paras. 11, 13.

estimate, they are likely to question the validity of the estimate to their insurance provider. [REDACTED]

[REDACTED]

[REDACTED]

53. In addition, certain areas of Canada appear to have higher rates of private automobile sales. Dealership listings do not provide enough comparables to allow Audatex to provide Valuation Reports in these areas.⁷³ [REDACTED]

[REDACTED]

[REDACTED]

54. Finally, older automobiles, which are more likely to be replaced rather than repaired after accidents, are more frequently listed by private individuals than by dealerships.⁷⁴

55. Sold data is also not sufficient for Audatex's business. Audatex's proprietary algorithms use automobile *listings* data, not sold data.⁷⁵ This is because Audatex believes that sold data produces less accurate results. For example, the sold price may include financing fees or warranty packages offered as an add-on by the seller, or include a trade-in credit.⁷⁶ Sold prices may also be under-reported to obtain a tax advantage.⁷⁷

56. Mitchell, Audatex's largest and only significant competitor, uses sold data in its total loss valuation reports, which is a main differentiating feature from Audatex's Valuation Reports.

57. Audatex has negotiated for the provision of automobile listings data from CarProof, Trader, Marktplaats, [REDACTED] and others. Despite these efforts, [REDACTED]

[REDACTED]

[REDACTED]

⁷² See e.g. Cairo Affidavit at para. 11; Toth Affidavit at para. 17.

⁷³ Cairo Affidavit at para. 13.

⁷⁴ Cairo Affidavit at para. 13.

⁷⁵ Toth Affidavit at para. 48.

⁷⁶ Cairo Affidavit at para. 14.

⁷⁷ Cairo Affidavit at para. 14.

E. The Respondents' refusal to deal is likely to have an adverse effect on competition in the market for total loss valuation and partial loss estimating services

58. Audatex and Mitchell are the only two material competitors for providing total loss valuation and partial loss estimating services.⁷⁸ [REDACTED]

[REDACTED] It is reasonable to expect that if Audatex suffers the substantial harm demonstrated above, that Mitchell will gain a monopoly in this market.

59. Furthermore, [REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

60. In *Used Car Dealers*, there were only three material competitors in the market for vehicle history reports: UCDAO, CarProof and CarFAX, Inc. The Tribunal held that since UCDAO had established that it would be substantially harmed by IBC's refusal to deal, and since there were so few competitors in the market, there was a reasonable possibility that IBC's refusal to deal was likely to have an adverse effect on competition in the market.⁸⁰ A similar conclusion is warranted in this case.

F. Each of the Respondents has refused to deal

61. Marktplaats and Trader have argued that they are not appropriate Respondents in this application as Audatex's allegations regarding anti-competitive conduct are directed at CarProof. However, Trader and Marktplaats are necessary and proper parties to this dispute.

62. The refusal to deal provision of the Act is designed to protect competition in the marketplace by compelling suppliers to supply a product, where their refusal to supply is substantially affecting a business and is likely to have an adverse effect on competition. Section 75 provides that if the elements of s. 75(1)(a)-(e) are met, the Tribunal may order that one or more suppliers of the product in the market accept the person as a customer. The Act does not require

⁷⁸ Toth Affidavit at paras. 47-49.

⁷⁹ Antony Affidavit at para 33.

⁸⁰ *Used Car Dealers* at para. 41.

that a supplier have been *the* supplier that engaged in anti-competitive conduct, only that it is a supplier of the product that the applicant is unable to obtain.

63. Audatex approached Trader⁸¹ and Marktplaats⁸² to supply the Canadian automobile listings data. [REDACTED] The reason [REDACTED] is considered when the Tribunal exercises its discretion, which is discussed fully below. As Trader and Markplaats are the only [REDACTED] sources of private automobile listings data in Canada, they are necessary and proper parties to this dispute.

G. The Tribunal should not exercise its discretion for the first time to decline to grant leave under s. 103.1(7)

64. Each of the Respondents argue, for various reasons, that even if Audatex demonstrates its business is directly and substantially affected and that each of the elements of s. 75(1) are met, the Tribunal should decline to exercise its discretion under 103.1(7) to grant leave to Audatex. Audatex recognizes that the Tribunal has this discretion.⁸³ However, the Tribunal has *never* refused to grant leave on this basis, even in the face of allegations of Applicants laundering money and facilitating offshore internet casino gambling.⁸⁴ The Tribunal has stated that the claims of Applicants at the leave stage must not be dismissed based on speculative allegations of impropriety by the Respondents.⁸⁵

65. The Respondents have argued that the Tribunal should refuse to grant leave on the following bases:

- (a) The automobile listings data is confidential and proprietary;

[REDACTED]
[REDACTED]
[REDACTED]

- [REDACTED]; and

⁸¹ Toth Affidavit at para. 21, Ex. 7.

⁸² Toth Affidavit at para. 24, Ex. 7.

⁸³ *B-Filer* at para. 24.

⁸⁴ *B-Filer* at para. 25.

⁸⁵ *B-Filer* at para. 33.

(d) Audatex's negotiations with CarProof.

66. These claims are speculative and/or not demonstrable on the basis of the limited evidentiary record at the leave stage. They cannot ground the Tribunal declining to exercise its jurisdiction to grant leave.

The automobile listings data is not confidential nor proprietary

67. As discussed above, the automobile listings data Audatex seeks is not confidential nor proprietary. The Respondents are not the copyright owners of this public data. In any event, even if the data was confidential and proprietary, the Tribunal has clearly held that it is entitled to make an order under section 75 despite the confidential or proprietary nature of the product.⁸⁶ In *Used Car Dealers*, the Tribunal granted leave where the product at issue was insurance claims data, similar in any confidential and proprietary nature as the automobile listings data.

The Respondents' contracts do not oust the Tribunal's jurisdiction

68. The contractual relationships of the Respondents do not oust the jurisdiction of the Tribunal to make an appropriate Order. [REDACTED]

[REDACTED]. It cannot be that [REDACTED] without the ability of the Tribunal to intervene. If it was so, parties would be free to harm competition at will through the use of similar agreements.⁸⁷

69. In *B-Filer*, the Bank of Nova Scotia argued that the Tribunal should decline to grant leave on the basis that any Order would affect its contractual relationships with its customers. The Tribunal held that this was not a sufficient reason to deny leave as "the Tribunal has jurisdiction to force parties to deal with one another if the requirements of the Act are met."⁸⁸

70. Indeed, if the Tribunal believes that a contract or contractual provision amounts to an anti-competitive practice, the Tribunal may order that it is unenforceable, without being required to

⁸⁶ *Xerox* at para. 71.

⁸⁷ There is no evidence that a similar [REDACTED] arrangement exists between CarProof and Trader.

⁸⁸ *B-Filer* at para. 51.

reconcile the effect that this would have on the remainder of the parties' bargain. In *Canada (Director of Investigation & Research) v. D & B Co. of Canada Ltd.*,⁸⁹ the Tribunal held that a series of exclusive contracts with suppliers amounted to an anti-competitive practice. The Tribunal ordered that the exclusivity provisions were unenforceable. The Tribunal held that it was not required to consider the effect of its Order on the rest of the parties' contractual relationships:

With respect to the existing retailer contracts, we have prohibited Nielsen from enforcing the provisions in those contracts which restrict or preclude a retailer from supplying its scanner data ... to someone other than Nielsen. It is somewhat more difficult to deal with the issue of inducements to exclusivity in the current contracts. The majority of Nielsen's contracts contain a single payment for the data and for exclusive access to them. ...

*Once our order makes the existing exclusivity clauses unenforceable, it is not clear what will be the legal status of the payment terms and of the remainder of the contracts. This is a matter to be dealt with in other forums.*⁹⁰ [emphasis added]

71. The contracts between CarProof and Marktplaats, and between CarProof and Trader, do not present a bar to the Tribunal exercising its jurisdiction to require the Respondents to supply the automobile listings data where the elements of s. 75(1) are met.

[REDACTED]

[REDACTED]

[REDACTED] It is premature at the leave stage to assess all of the factors that will affect whether the Tribunal should exercise its discretion to make an order under section 75.

⁸⁹ 1995 CarswellNat 2684 (Comp. Trib.).

⁹⁰ *Ibid* at paras. 207-208.

⁹¹ Cairo Affidavit at para. 6.

⁹² Cairo Affidavit at para. 6.

The evidence demonstrates that it was CarProof, not Audatex, that was negotiating in bad faith

74. CarProof has alleged bad faith negotiations due to delays by Audatex in negotiating with CarProof for the automobile listings data. However, the evidence demonstrates that it was CarProof that was negotiating in bad faith, [REDACTED]

[REDACTED]

76. At the outset of negotiations on January 6, 2015, Audatex reiterated its understanding that CarProof would [REDACTED]

[REDACTED] [emphasis added]

77. CarProof confirmed Audatex’s understanding in its response on January 9, 2015:

[REDACTED] [emphasis added]

78. In April 2015, CarProof sent Audatex a term sheet that contemplated a global resolution of the claims between them. The Term Sheet provides that:

[REDACTED] [emphasis added]

79. On July 13, 2015, just seven days after Marktplaats informed Audatex of its position that [REDACTED], CarProof sent a letter to Audatex stating:

⁹³ Antony Affidavit, Ex. 11.

⁹⁴ Antony Affidavit, Ex. 11.

⁹⁵ Brady Affidavit at para. 6; Toth Affidavit, Ex. 15.

[REDACTED]
[REDACTED]
[REDACTED]⁹⁶ [emphasis added]

80. Audatex confirmed its understanding that [REDACTED] was part of the agreement that was being negotiated between the parties by letter of August 3, 2015, which stated:

[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]...⁹⁷ [emphasis added]

81. CarProof did nothing to disabuse Audatex of the notion that [REDACTED]
[REDACTED]⁹⁸ To the contrary, CarProof reinforced this representation. In the revised draft listings agreement provided by CarProof to Audatex on September 20, 2015, [REDACTED]
[REDACTED]
[REDACTED]

82. Audatex undertook extensive negotiations with CarProof spanning nearly a year in order to obtain access to Canadian automobile listings data. The largest and most valuable source of this data is from Marktplaats. [REDACTED]
[REDACTED] Audatex’s understanding that [REDACTED] in the Canadian listings data which CarProof would supply to it, is reflected in the quantum of the fee it offered to CarProof for the data, namely [REDACTED] per year.¹⁰⁰

[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]

⁹⁶ Brady Affidavit at para. 7; Toth Affidavit, Ex. 14.

⁹⁷ Brady Affidavit at para. 8; Toth Affidavit, Ex. 15.

⁹⁸ Brady Affidavit at para. 32.

⁹⁹ Brady Affidavit at para. 28.

¹⁰⁰ Brady Affidavit at para. 10.

84. [REDACTED], in order to squeeze concessions out of the other party is antithetical to good faith contractual bargaining. The evidence clearly establishes that it was CarProof negotiating in bad faith, not Audatex.

H. Conclusion

85. Audatex respectfully submits that it has provided sufficient credible evidence that there is a reasonable possibility that 1) its business will be directly and substantially affected by the Respondents' refusal to deal, and 2) an Order could be issued under section 75 of the Act. The Tribunal should grant leave for Audatex to proceed.

I. Hearing

86. Given the [REDACTED] harm that Audatex faces, Audatex is seeking an expedited resolution of this application. As a result, it is not specifically requesting an oral hearing. However, given the extensive evidentiary record that has been filed by the parties, Audatex would be willing to attend a hearing to assist the Tribunal with any questions that have arisen from the materials.

Dated at Toronto this 17th day of November, 2015.

On behalf of the Applicant Audatex

McCarthy Tétrault LLP
Barristers & Solicitors
Suite 5300, Toronto Dominion Bank Tower
Toronto ON M5K 1E6

Donald B. Houston
Tel: (416) 601-7506
E-mail: dhouston@mccarthy.ca
Fax: (416) 868-0673

Julie K. Parla
Tel: (416) 601-8190
E-mail: jparla@mccarthy.ca

Jonathan Bitran
Tel: (416) 601-7693
E-mail: jbitran@mccarthy.ca

Trevor Courtis

Tel: (416) 601-7643

E-mail: tcourtis@mccarthy.ca

Lawyers for the Applicant

TO: **The Registrar**
Competition Tribunal
The Thomas D'Arcy McGee Building
90 Sparks Street, Suite 600
Ottawa, ON K1P 5B4

Tel: (613) 957-7851

Fax: (613) 952-1123

AND TO: **John Pecman**
Commissioner of Competition
50 Victoria Street
Gatineau, QC K1A 0C9

Tel: (819) 997-5300

Fax: (819) 953-5013

AND TO: **CarProof Corporation**
130 Dufferin Avenue, Suite 1101
London, Ontario, N6A 5R2

AND TO: **TRADER Corporation**
405 The West Mall, Suite 110
Etobicoke, Ontario, M9C 5J1

AND TO: **eBay Canada Limited**
500 King Street West, Suite 200
Toronto, Ontario, M5V 1L9

PUBLIC

File No.:

Registry Document No.:

COMPETITION TRIBUNAL**IN THE MATTER OF** the Competition Act, R.S.C. 1985, c. C-34, as amended;**AND IN THE MATTER OF** an Application by Audatex Canada, ULC for an Order pursuant to section 103.1 granting leave to make application under section 75 of the *Competition Act*.**BETWEEN:****AUDATEX CANADA, ULC**

Applicant

- and -

CARPROOF CORPORATION, TRADER CORPORATION, AND eBAY CANADA LIMITED

Respondents

**APPLICATION FOR LEAVE TO MAKE AN APPLICATION
UNDER SECTION 75 OF THE *COMPETITION ACT*
PURSUANT TO SECTION 103.1 OF THE *COMPETITION ACT***

APPENDIX TO THE REPLY SUBMISSIONS OF THE APPLICANT

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Tab 1

1990 CarswellNat 1372
Competition Tribunal

Canada (Director of Investigation & Research) v. Xerox Canada Inc.

1990 CarswellNat 1372, [1990] C.L.D. 1146, 33 C.P.R. (3d) 83

In the Matter of an application by the Director of Investigation and Research for an order pursuant to section 75 of the Competition Act, R.S.C., 1985, c. C-34, as amended, requesting that the respondent accept the Exdos Corporation as a customer for the supply of a product

The Director of Investigation and Research, Applicant and Xerox Canada Inc., Respondent

Clarke Member, Reed J., Roseman Member

Heard: June 11, 1990

Heard: July 20, 1990

Judgment: November 2, 1990

Docket: CT-89/4

Counsel: *James W. Leising, John S. Tyhurst*, for the Applicant
Colin L. Campbell, Q.C., William Donaldson, for the Respondent

Subject: Criminal; Intellectual Property; Property; Corporate and Commercial; Constitutional

Decision of the Board:

I. Introduction

1 The Director of Investigation and Research ("Director") brings an application seeking an order to require Xerox Canada Inc. ("Xerox") to accept Exdos Corporation ("Exdos") as a customer for the supply of certain Xerox copier parts. This application is brought pursuant to section 75 of the *Competition Act*.¹

2 Xerox followed the practice, for a number of years, of freely selling parts for its photocopier machines to any purchasers willing to pay the list price, of whom Exdos was one. Sales were made without regard to the use subsequently made of the parts, whether they be used by the purchasers as end users² of the photocopier machines, or as suppliers of maintenance service to owners of Xerox photocopiers, or as refurbishers of second-hand Xerox machines for resale into the used photocopier market. Then, in August 1988, in response to a policy originating with Xerox Corp. (U.S.) but subsequently adopted by Xerox (Canada), the supply of such parts was curtailed. This was done in order to eliminate competition from organizations which had grown up and were providing maintenance service for Xerox photocopiers. Xerox determined that some of the "margin-rich area" of service revenue was being lost to these competitors. The competitors are referred to in the evidence as independent service organizations ("ISOs"). The curtailment of the supply will also effectively eliminate most of the second-hand market in Xerox copiers, except to the extent that such is controlled by Xerox. Exdos was one of the organizations caught in this general refusal to supply copier parts. Insofar as the particular position of Exdos is concerned, the relevant facts follow.

II. Background and Refusal to Supply

A. Initiation of the Business Relationship

3 In 1982 Xerox found itself with an overly large inventory of used photocopiers. It was Xerox's practice, at the time, to either scrap such machines or to refurbish them to an "as new" condition. In the latter case the machines were resold, leased or rented with a "new machine" warranty. Xerox was concerned about the drain the oversupply of used inventory was creating on the financial position of the company.

4 The oversupply of used machines was the result of a number of factors: there was a general economic downturn in 1980-81; the patent which Xerox held on the copier technology had expired in the mid-1970s and, with that expiry, Xerox faced increasing competition from other manufacturers of photocopiers. In addition, Xerox was moving to a new technology, described generally in the evidence as "10 Series copiers", which was eventually introduced in 1983.³ It was anticipated that many of Xerox's customers would wish to move to this new technology. Consequently, as a result of both the increased competition which Xerox was facing and the desire of customers to move to the new technology, it was expected that the return of old machines to Xerox would increase.

5 The normal practice of Xerox, prior to the late 1970s, had been to place machines with customers on a rental basis. Under this practice ownership of the machines remained at all times in the hands of Xerox or returned to Xerox at the end of the lease. In the late 1970s, the practice in the industry began to change to one of selling the machines to customers either by way of an outright sale or through a lease-purchase arrangement. With more and more machines owned by customers directly, it was anticipated that a considerable second-hand market in the machines would develop.

6 In 1982, Terry Reid was an employee of Xerox. Terry Reid subsequently became and remains the president and majority shareholder of Exdos. Xerox and Reid determined that a mutually advantageous arrangement might be created if Reid left the Xerox company and created an independent company which would purchase some of the used copier machines from Xerox in an "as is" condition, refurbish them and sell them into the second-hand market.⁴ It was contemplated that this would tap an area of the market not previously served by Xerox. It would also free the Xerox sales force to concentrate on selling the newer model machines. It would give Reid an opportunity to develop his own business and would have a positive effect on the Xerox balance sheet. It was contemplated that Reid would create a dealer network throughout Canada for the purpose of disposing of the used copiers. It was also contemplated that he would himself market some of the machines directly into the end user market.

7 In May 1983, Exdos (initially carrying the name XDS Corp.) and Xerox entered into a contract pursuant to which Exdos was to be allowed to purchase certain copier models⁵ at specified prices. Delivery of the equipment was taken by Exdos at Xerox's three distribution centres in Toronto, Montreal and Calgary. Exdos was also given, under the May 24, 1983 contract, the right to purchase copier parts for the various second-hand models covered by that contract. Such parts were to be sold to Exdos at 50 percent off list (drums for the machines were to be sold at an even more advantageous price, namely twice the Canadian landed price). The contract was expressed to run for a year or to come to an end at an earlier date should Exdos purchase, by that time, a certain dollar volume of equipment. For four months Exdos was given an exclusive right to purchase the used copier models (from May 24, 1983 until October 1, 1983). At the time, this arrangement was clearly, in the eyes of Xerox, an experiment; it was designed to determine if a mutually advantageous business arrangement could be developed.

8 It was recognized from the beginning that there was a potential for Exdos' activity, in moving into or feeding a market for second-hand copiers, to lead to conflict with Xerox's mainline sales activity. Indeed, the initial contract signed by the parties contained an extensive list of Xerox's major customers to which Exdos agreed it would not market the used machines purchased from Xerox. It is clear that Reid understood from the very beginning that if his activities in selling second-hand copier equipment resulted in conflict with Xerox's mainline sales efforts ("raised the field noise level") this could result in the cancellation of his contract.

B. Contract Modifications - Copiers from Sources Other than Xerox - Parts from Xerox

9 The contract between Exdos and Xerox was extended and modified from time to time. Many of the changes need not be detailed here. Suffice it to say that Exdos' exclusive right to purchase certain used photocopier models from Xerox, which was originally designed to operate for only four months, was extended indefinitely; a reciprocal exclusivity obligation was

imposed on Exdos (to purchase the models covered by the contract from Xerox only); the contract was varied to one of indefinite duration, subject to termination by either party at first on 60 days notice and later on 30 days notice. The list of copiers which Reid was entitled to purchase from Xerox under the contract was expanded slightly from time to time to include three or four additional models as such became "obsolete", that is moved off Xerox's active sales list, but this list never included used 9000⁶ or 10 Series machines⁷. The 50 percent discount off list, for parts for the used machines which Reid obtained from Xerox, was subsequently modified to a 25 percent discount and eventually eliminated. He thereafter paid list price for the parts purchased. The most significant change in the contract arrangement between the parties, for the purposes of this case, however, was the addition of provisions with respect to the purchase and sale of parts for copier models acquired by Exdos from sources other than Xerox, about which more will be said later.

10 Almost from the beginning Exdos began purchasing second-hand Xerox copier models from sources other than Xerox. These were obtained, for example, from finance companies who had repossessed the equipment for non-payment, or from owners of the equipment who were upgrading to a newer model, or at auction. The used copiers obtained in this way at first included only pre-1983 copier models not covered by the contract⁸. Eventually they also included the newer 9000 and 10 Series models. They never, however, included the 50 Series machines which were introduced by Xerox in 1989.

11 Reid used Exdos to purchase the second-hand equipment, either from Xerox or other sources. When the copiers were placed directly into the end user market, Reid used a company called Nezron Office Products ("Nezron") to deal with the end user. Reid acquired a 70 percent interest in Nezron shortly after he established Exdos. (In late 1989, Exdos acquired the remaining 30 percent interest.) Exdos also established contacts with existing Canadian ISOs and encouraged the creation of other ISOs in various locations throughout the country, to which Exdos sold used copier equipment. Eventually, equipment was also sold into the United States and abroad.

12 After a photocopier is sold, there is a continual need to provide maintenance service to support the machine in the customer's hands. Reid used Nezron to support the second-hand machines he placed directly into the end user market. The other ISOs offered service for the machines they placed in that market. Alternatively, the final purchaser could contract with Xerox for service, providing Xerox's terms for dealing with used machines were met. The usual practice in the industry is for the purchaser of a machine to obtain service from the vendor of the machine.

13 In order to provide service, access to spare parts is of course necessary. From the beginning Reid purchased parts from Xerox for this purpose. The parts purchased related to both the used equipment purchased from Xerox and the used equipment purchased elsewhere. This included parts for the newer copier models (9000 and 10 Series). Some of the ISOs who purchased used equipment from Reid apparently bought at least some Xerox parts through him; several of them also bought parts directly from Xerox.

C. Xerox's Reaction to Exdos' Purchasing Equipment Outside the Initial Contract

14 Various Xerox employees of Xerox testified that the activity of Exdos (Reid), in purchasing used machines from sources other than Xerox and in purchasing parts from Xerox for those machines, was considered by Xerox from the beginning to be a breach of, at least, the spirit of its May 1983 contract with Exdos. It was contended that Xerox, with one exception, did not knowingly supply Reid with parts for copier models other than those expressly covered by the May 24, 1983 contract (or any successor contract). The one exception was said to be the supply of parts to Reid when these were required for his *own* end use. The evidence does not support that conclusion. While the initial formal written contract between Exdos and Xerox governed only the purchase of parts and supplies for photocopier models sold under the contract, it is clear that from a very early stage Xerox was aware of both Exdos' expansion of its business into other copier models and its purchase of parts for these machines from Xerox.

15 Insofar as the expansion of the business is concerned Xerox documents record, as early as April 1984, that:

EXDOS may ... source [buy] Xerox equipment that we will not supply him from other sources. There are several models that we will not sell him and these are the units that we are still actively marketing. He buys these from many sources.⁹

16 With respect to the purchase of parts for the copier models not covered by the contract, during the first year of the contract orders for such were lumped together by Exdos with orders for the copier parts on which Exdos was entitled to a 50 percent discount under the contract. This was not considered by Xerox to have been intended. Thus, when Xerox conducted an internal review of the Exdos contract in December 1984, one of the concerns expressed was that:

EXDOS/NEZRON or its agents as a condition of our agreement must be prohibited from ordering parts for any piece of equipment not sold to them by Xerox other than at full retail price at which they are available to any customer.

(underlining added)¹⁰

17 Consequently, Exdos was given separate customer numbers: one under which it was to order parts for copier models pursuant to the May 1983 contract and another under which it could order parts not covered by the contract. The May 1985 version of the contract expressly provided that:

Parts and drums for equipment not listed in Appendix A [Appendix A listed equipment available from Xerox] may be purchased by Exdos (subject to availability and Xerox's right to limit quantities at any one time) at standard retail prices in effect at the time of purchase.¹¹

There is no evidence that Exdos (Reid) tried to circumvent or abuse this ordering system, for example, by ordering parts for the newer copier models under the number which was to be used for the ordering of parts on which he was entitled to a discount.

18 As has been noted, Xerox argues that throughout its relationship with Reid its policy was to sell parts for the newer copier models to the end users of photocopiers only and that it was on this basis that Reid was allowed to purchase parts for models not covered by the contract, including eventually the post-1983 copier models. This is not supported by the weight of the evidence. There is no documentary record of such a restriction having been communicated to or imposed upon Exdos. There is no documentary evidence of such a restriction having been communicated to the employees of Xerox who processed the Exdos orders. There was no monitoring by Xerox of either the volume or type of parts being purchased. And there is no evidence that any monitoring took place with respect to any other customer purchasing Xerox parts. By mid-1985 a monitoring system was easily available to Xerox, as a result of a change made to its parts ordering system at that time.

19 The volume of 10 Series parts Reid purchased is entirely inconsistent with the suggestion that Xerox was only providing such to Exdos for its own end use. In this regard, Xerox employees were aware of the approximate size and nature of Reid's operation. For example, Mr. Hyde visited the Exdos-Nezron business premises in the late fall of 1984 and saw used 10 Series machines in the showroom at that time. Reid sought and received, from Xerox, copies of both parts price lists and service manuals for the 10 Series machines. Such activity is entirely inconsistent with the suggestion that Xerox was only selling parts to end use customers and that Reid's acquisition of post-1983 copier parts was in some way accomplished through subterfuge. It is clear that post-1983 copier parts were being purchased by Exdos and other independent service organisations openly and without restriction.

20 Although not directly relevant to the issues in this case, for completeness one further aspect of Reid's expansion of his business during the 1984-1985 period should be referred to. Reid expanded his business into the United States and purchased and resold second-hand copiers and parts in that market. This expansion was with Xerox Canada's knowledge and at least tacit permission. Again there was a need to support the photocopier sales with a supply of spare parts. In this context some of the parts being purchased by Exdos from Xerox at a discount (particularly the drums) found their way into the United States market. The parts, having been purchased from Xerox at 50 percent off list, and the drums at a more advantageous price, could be resold into the United States market at prices which undercut the sales efforts of the marketing arm of Xerox Corp. (U.S.). This entity is referred to in the evidence as the United States Marketing Group ("USMG"). In response to concerns expressed by

USMG, the discount to Reid for parts for the pre-1983 copier models was revised in the May 1985 contract renegotiations; the 50 percent discount was lowered to 25 percent. In addition, the list prices of the parts themselves were raised. These changes led Xerox officials to conclude with respect to the concerns raised by USMG:

The contract has recently been renegotiated with Exdos. The issues you have alluded to ought not to occur unless Exdos wishes to take advantage of any currency exchange fluctuations.¹²

D. Expansion of Exdos and Other ISOs - Consumer Benefit

21 At the same time that Exdos was expanding its activities in the marketing and servicing of second-hand Xerox equipment, others were doing likewise. A number of ISOs were becoming established in Canada as they had been for some time in the United States. These enterprises provided competition to Xerox with respect to the provision of service for Xerox machines, both second-hand and new. The second-hand machines also provided some competition at the lower end of the market to the sale of new Xerox machines. With respect to this last, however, Reid generally managed to avoid sales conflicts with Xerox. In general there was little "field noise".

22 Evidence before the Tribunal makes it clear that the second-hand copier market and the option for an alternate source of service provided by ISOs are beneficial to consumers. They allow for customer choice which would not otherwise be available. With respect to the sales of copiers, Exdos-Nezron and other dealers selling second-hand equipment provide the market with machines at a lower price than is the case for a new machine (e.g. \$55,000 for a refurbished model 1090 copier as compared to approximately \$95,000 for a new machine).¹³ Also, the evidence demonstrates that Exdos-Nezron and other ISOs provide service of a quality comparable to that provided by Xerox, and on occasion better and at a lower price. Reid speculated that this was possible, even though the ISOs had to buy the parts for the newer copier models from Xerox at full retail price, because the smaller organizations had less overhead and more flexibility than Xerox. In addition, some customers indicated that they preferred to be free of the rather oppressive overselling of Xerox sales representatives. They were unhappy, for example, with the fact that equipment did not always last the life of a given lease and with the continual pressure from Xerox sales personnel to upgrade even though such might not be in the customer's best interest.

23 The customers of Exdos who were called as witnesses were operating, in general, under significant cost restrictions (some were described by counsel as "mom and pop businesses"). It is clear that a second source of supply for Xerox machines, albeit used machines, and a second source of supply for maintenance services are extremely important in enabling such individuals to obtain quality machines and quality service at an affordable price. In one instance the evidence indicates that in the absence of Exdos the customer, Raymar Equipment Service of Beaton, Ontario, would not have been able to acquire a Xerox machine because service was simply not provided by the company to that geographical area. (Beaton is about an hour northwest of Toronto.)

24 The evidence of Mr. Kelly, Director of Purchasing for Humber College, is particularly illustrative. Humber College has a heavy capital investment in its reprographic equipment. During the 1986-87 period it owned approximately sixty Xerox machines. About thirty of these had been purchased two years previously. In 1986, Humber College was receiving less than satisfactory service with respect to these machines:

Everything was fine for the first few years, but service began to deteriorate. ...

You have [to] realize that in an academic institution, a copier is very essential as far as preparation of materials for various classrooms. So, it is a very high priority product in our organization.

Service deteriorated to the point where equipment was down for four and six days at a time. Complaints to service management — to our marketing rep — they tried a number of remedies. Nothing seemed to work. They basically explained that it was the high volumes that were causing the problems.

It got to the point where it became critical. ... We had professors going — walking right into the President's office and throwing it at him. Now, that is something that a President certainly does not need,

We had to start to source some kind of an alternative. We had heard about — through colleagues in purchasing — that there were some independent service people out there, so we sourced the marketplace, and found a company by the name of Anco Equipment.¹⁴

Accordingly, Humber College began using Anco Equipment to service its machines:

We found that the independent operators were certainly cheaper. We were very skeptical, though. It was about four months of interviews and reassurances to really separate from Xerox and we started off with just a couple of machines and let Anco look after a couple,

As he progressed and proved that he could look after our equipment, we added more and more equipment to his installed base.¹⁵

25 Humber College subsequently purchased nineteen used Xerox copiers from this same ISO to replace some of its existing unsatisfactory machines:

That was very beneficial to the college. We bought them and installed them and, of course, set him [Anco] up as the service agent for that equipment. ...

[With respect to the service received from Anco] we are looking at least 75 per cent better than it was with the same volumes. ... It is much cheaper.¹⁶

E. Photocopiers - Service and Parts Revenue - Xerox's Market Position

26 Photocopiers, by their nature, require constant service. This is so whether the machine be second-hand or new. Indeed, there was evidence that the purchaser of a machine, either second-hand or new, is unlikely to make a purchase without at the same time making some arrangement for its servicing. Because photocopiers require constant service, the revenue received therefrom rivals, if not exceeds, that obtained from the original sale of the machine.

27 When buying a machine from Xerox, customers are given several options with respect to a possible service agreement. Customers can choose a full service maintenance agreement under which they pay Xerox an amount which is calculated by reference to the usage which the machine receives. The cost of parts and service are not separated out or identified in the amount paid. For example, Humber College paid Xerox, under its service contract, a certain base charge which was paid as a lump sum at the beginning of each year and then 1.15 cents for each copy produced by the machines. Ninety-five percent of Xerox's customers choose a full service agreement. A second option which customers can choose is a time and materials service agreement. Under this arrangement they pay for parts and service only as and when the machine breaks down. A third option is available for some large volume customers. An employee of the customer can be trained by Xerox to service the photocopiers (at least insofar as the less complicated repairs are concerned). Under this option the customer provides its own service and the required parts are purchased from Xerox. The University of Manitoba, for example, is one customer who chooses this option.

28 Xerox obtains the parts which it either sells (now only to end users) or provides to its service representatives from Xerox Corp. (U.S.). In determining a retail price for these parts there is no evidence that competitive factors are taken into account. Xerox simply uses a grid formula pursuant to which the landed Canadian price, paid by Xerox to its parent, is multiplied by a factor of from two to eight with the multiples being inversely related to the landed price of the parts. Xerox parts are generally more expensive than comparable parts for other copiers. A study of comparable parts was placed in evidence. It shows that prices for Xerox parts are from 198 percent to 951 percent (the median being 389 percent) higher than similar parts used in two equivalent copiers. While Xerox challenges the accuracy of this study it produced no direct evidence to support that challenge. Accordingly, the probative value of that study has not been seriously undermined.

29 Xerox is the largest supplier of copiers in Canada. In 1989, Xerox had a dominant position in the high-volume end of the market (90 percent share of copier placements) and accounted for almost one-half of the copier placements in the medium volume range.¹⁷ It accounts for about one-third of the low-volume copier placements but does not compete in the personal copier market. The copier market is described by Professor Wilson, testifying on behalf of the Director, as a differentiated oligopoly with an active competitive fringe. As Professor Wilson stated, and which the Tribunal accepts, while there is obviously competition in the copier market, with success critically dependent upon an ability to sell upgraded equipment from a cost and features standpoint, the evidence does not warrant the conclusion that Xerox has little market power in the copier market.

F. Introduction of an ISO Policy (United States)

30 In January 1987 a policy respecting ISOs was issued by USMG for the United States market. This was a revised version of an earlier policy which had been developed in April 1984 but which had not been implemented. The policy was to refuse, thereafter, to supply ISOs with 10 Series and any new product parts for resale. Part of the documentation describing the initial policy change in 1984 reads:

We have had a long standing policy of selling parts at commercial list price to all third parties, including direct purchasers of our equipment, third party leasing companies and third party service companies. The establishment of resellers authorized to service Xerox equipment has necessitated a significant change to this policy.¹⁸

The January 1987 policy reads in part:

For 10 Series copiers ... we will not knowingly supply ISOs with parts for resale, technical training, technical documentation, or other resources (not generally available to end-users). When an order for such resources is received, we may require verification that the purchaser is an end-user and that any parts are not intended for resale. (Resources for new Xerox products introduced after the effective date of this policy likewise will not be offered to ISOs.)¹⁹

31 The ISO policy for the United States was clearly designed to undercut the viability of the ISOs and to preserve, if not enhance, the revenue derived by Xerox Corp. from the service aspect of its business. This policy was subsequently adopted in similar form by Xerox Canada in June 1988 and led to the refusal to supply which is in issue in this case.²⁰ Before dealing further with the events which led to the refusal to supply, evidence respecting the Xerox-Exdos business relationship during the April 1987 to August 1988 period will be referred to.

G. Xerox/Exdos' Business Relationship — April 1987 to August 1988

32 In April 1987, Reid received notice that Exdos' contract with Xerox for the purchase of used equipment was being terminated as of the end of May. It was the view of the person in charge of dealing with Reid at that time (Mr. Haltigin) that the contract was not profitable from Xerox's point of view. This view was based on Mr. Haltigin's analysis of the difference between the cost to Xerox of scrapping the used machines (including the recoverable metal obtained in that process) and the profit received as a result of selling the machines to Reid. The analysis was successfully challenged by Reid who pointed out that it had not taken into account the revenue received by Xerox from the sale to Exdos of parts and supplies for the machines.

33 Thus, while Reid's 1983/1985 contract was cancelled, subsequent negotiations led in November 1987 to an arrangement whereby he was allowed to purchase second-hand equipment from Xerox on a "one off basis". There was no change, however, in Reid's pattern of purchasing parts from Xerox. He continued to purchase parts for both the used machines which he had purchased from Xerox and for the used copiers, including post-1983 models, which he had purchased elsewhere. Both categories of parts were sold to him at full retail price.

34 Correspondence which documents the agreement clearly provides that:

Parts for Xerox equipment not purchased by EXDOS from XCI [Xerox] (i.e. equipment not listed in Attachment B), will continue to be available for EXDOS purchase at standard retail prices. Order fulfilment will be subject to availability and Xerox's right to limit quantities.²¹

(some underlining added)

This portion of the correspondence was a direct response to Reid's May 1987 request for clarification from Xerox of various issues arising from the contract termination:

There are a number of models of Xerox equipment which we service which were not purchased directly from XCI but rather were purchased from XCI customers, through XCI sales representatives, leasing companies and end users directly.

We need confirmation that parts for this type of equipment will continue to be available at a standard retail rate.²²

All during the May 1987 to August 1988 period parts for both pre-1983 and post-1983 copier models were sold to Exdos.

H. Development of Canadian ISO Policy — Refusal to Supply Parts

35 To return to a consideration of the Xerox ISO policy, the evidence establishes that the USMG policy, concerning the refusal to sell 10 Series and newer copier parts to ISOs, would not be effective unless it was implemented by Xerox worldwide. Thus, this ISO policy which originated in the United States was subsequently adopted in Canada. Xerox argued that insofar as Canada was concerned, the implementation of the policy was nothing more than the formalization of what had always been the company policy, that is, that it would only sell post-1983 copier parts to end users of the machines. As has been noted, the evidence does not support that conclusion except, perhaps, with respect to 50 Series parts, which were not on the market until well after the effective date of the Canadian policy.

36 The first draft of the Canadian ISO policy was prepared by Xerox in December 1987. This policy was modeled on the Xerox Corp. (U.S.) policy. Background documents on the policy provided Xerox employees with the following information:

Senior management is increasingly emphasizing the importance of service revenue to XCI profits.

Our challenge is to grow service revenue stream which is essential to Xerox success.

Sale of parts, training documentation and other support requirements for 10 Series, EP, OS products to ISOs (independent service organizations) is contrary to this objective.²³

On March 7, 1988, a meeting was held to discuss the final draft and implementation of the policy. As part of that implementation procedure, Xerox compiled a list of its top 150 parts customers for the purpose of identifying those among them who were ISOs. The highest volume parts purchaser identified as an ISO was Exdos. In June 1988 the Canadian ISO policy became effective.²⁴ By July 6, 1988, a list of ISOs had been prepared along with a draft letter notifying them of the parts cut off.

37 On August 26, 1988, a letter was sent to Exdos advising it that Xerox had recently reviewed its product strategy and determined that:

... continuation of a used equipment sales and support channel would conflict with other market initiatives presently underway. As a result, we find it necessary to discontinue the sale of used equipment, supplies and parts to EXDOS²⁵

The cut-off date for used equipment sales was September 26, 1988; parts for resale or service would be unavailable after October 26, 1988. Exdos purchases as an "end user customer" were unaffected.

38 On August 29, 1988, letters were sent by Xerox to all the other Canadian ISOs announcing the refusal to continue to sell 10 Series parts, 9000 Series parts and parts for various other listed products, other than to end users. For this purpose, ownership

of a machine was considered to be irrelevant. The person who actually used the machine, regardless of who owned it, was classified as the end user. Thus ISOs who owned used Xerox equipment, which they had placed under rental to customers, were not entitled to parts for even those machines.

III. Competition Law Issues

39 An order is sought pursuant to section 75 of the *Competition Act* to require Xerox to supply Exdos (Reid) with post-1983 copier parts. For the purposes of the present case, section 75 can be excerpted as follows:

75. (1) Where, on application by the Director, the Tribunal finds that

(a) a person is substantially affected in his business ... due to his inability to obtain adequate supplies of a product anywhere in a market on usual trade terms,

(b) the person ... is unable to obtain adequate supplies of the product because of insufficient competition among suppliers of the product in the market,

(c) the person ... is willing and able to meet the usual trade terms ..., and

(d) the product is in ample supply,

the Tribunal may order that one or more suppliers of the product in the market accept the person as a customer.

(underlining added)

40 There is no dispute that the parts in question are in adequate supply. There is no dispute that Exdos is willing and able to meet the usual trade terms. There is little doubt that Exdos is unable to obtain adequate supplies of the parts. And, there is little doubt that the inability to obtain supply of the parts has and will substantially affect Exdos' business.

41 The main competition law issue in this case is the proper product market definition and concomitantly whether it can be said that Exdos' inability to obtain adequate supplies of the product arose because of "insufficient competition among suppliers of the product in the market" ("en raison de l'insuffisance de la concurrence entre les fournisseurs de ce produit sur ce marché"). More particularly, does section 75 encompass a situation in which the product is proprietary and derives largely from a single source?

A. Inadequate Supply

42 Prior to Xerox's refusal to sell post-1983 copier parts, except to end users, Exdos could obtain supplies from Xerox itself and from other ISOs either in Canada or the United States. It also could obtain parts from Rank Xerox, the British arm of the Xerox corporate family. Indeed, for some time after the supply of parts had been cut off in both Canada and the United States the supply from Rank Xerox continued. As of February, 1990, however, this source dried up as Rank Xerox implemented the ISO policy which had been adopted previously in the United States and Canada.

43 Exdos can now obtain Xerox copier parts: (1) from Xerox, to the extent that Exdos is recognized by Xerox as an end user of any given machine; (2) from the "cannibalization" of used machines; and (3) from independent manufacturers of Xerox parts. With respect to the first source of supply, upon being notified of Xerox's refusal to supply parts except to end users, Reid moved a number of different copier models into his showroom. He had them registered with Xerox in the name of Exdos, as an end user. He is receiving through this process a limited number of parts. This source of supply was described by counsel for the Director as a "trickle" of parts.

44 The second source of supply, the "cannibalization" of machines, is not an adequate source of supply over the long run. Many parts in a photocopier are "consumable" parts. That is, they wear out on a regular basis, after a given amount of use. They must be frequently replaced. Consumable parts which are obtained from used machines automatically have a more limited life than new parts. Thus replacing a worn out consumable part with a used one invites more frequent service calls. In addition,

an ISO is left with a stock pile of unused parts (from the rest of the machine) which do not need to be replaced with the same frequency as the consumable parts. The cannibalization of machines is not in the long run an economically viable source for consumable parts.

45 With respect to the third source of supply, the evidence establishes that there were and are independent manufacturers who make some Xerox copier parts. They manufacture the parts that are in heavy demand but they do not manufacture all the parts necessary to properly service the machines. Some unique parts, which are essential for proper service, cannot be obtained from this source. It is clear on the basis of the evidence, then, that the sources of supply of Xerox parts left, in the face of Xerox's refusal to supply, are inadequate.

B. Business Substantially Affected

46 The evidence establishes that the Exdos-Nezron business has three overlapping aspects. The first is the purchase and sale of used Xerox photocopiers from a variety of sources and the marketing of them, together with the parts required to refurbish and service them, to customers in Canada and elsewhere. This is sometimes referred to as the "brokering" aspect of the business. The second is the refurbishing of the machines by Exdos-Nezron and the marketing of those machines directly into the end-user market, whether by sale, lease or rental. This involves both the placement of the copiers in the end-user market and the provision of continuing service for the machines in the customers hands, should the customer so wish. The third aspect of the business is the servicing of Xerox copiers independently of the sale of the machines. All three aspects of the business require access to Xerox copier parts for the business to survive.

47 Xerox argues that since it is still willing to supply Exdos with pre-1983 copier parts there should be a finding of no substantial effect on the Exdos business. This is not convincing both because of the volume of the Exdos-Nezron installed 10 Series customer base and because the pre-1983 copier market is a shrinking one. Xerox further argues that since its policy is to allow end users to purchase parts, there should be a finding of no substantial effect. It argues that Reid's customers can order service from Exdos-Nezron, then order the parts themselves directly from Xerox, after which Exdos-Nezron can complete the service. This is clearly so impractical that it has the appearance of a charade. Customer after customer testified that this was not a viable procedure. In the first place, customers do not want to be involved in the administrative task of ordering parts. More importantly, however, they will not tolerate the machine down-time which such a process of service and repair would entail.

48 While it seems axiomatic, from the nature of the Exdos-Nezron business and from the facts set out above, that the refusal to supply will substantially affect if not destroy the Exdos-Nezron business, the Tribunal does not rely solely on the evidence which has already been described. The evidence of Mr. Banks, the accountant who performed an audit of the Exdos-Nezron business for the purpose of assessing the effects of the Xerox refusal to supply, establishes beyond any doubt that the Exdos business will be substantially affected by the refusal. One caveat must be added to this conclusion. No evidence was led with respect to the effect that the non-supply of 50 Series parts would have on Exdos. Mr. Banks did not deal with this matter in his evidence. Mr. Reid did not give evidence with respect thereto. As the Tribunal understands it, the 50 Series operates by means of new technology. They were first marketed in 1989 and parts have apparently never been sold to Exdos or to other ISOs.

C. Product/Market

49 Section 75 requires that one find that a person is unable to obtain adequate supplies "of a product anywhere in a market". In this case, there is little question about the geographic dimension of the market; it was tacitly assumed to be Canada. The main issue between the parties is the relevant product and, concomitantly, the relevant product market. The Director argues that the relevant product is Xerox copier parts, in particular post-1983 Xerox copier parts. The respondent submits that the relevant product market is that in which Xerox itself competes, namely "the provision of reprographic equipments, parts and service to end use customers."

50 The various arguments which have been raised before the Tribunal with respect to product definition will be considered in the following order: (1) whether, in the present case, Xerox parts should be considered to be a relevant product market for section 75 purposes; (2) whether vertical integration exists as a norm in the industry and the extent to which such might be relevant

in the identification of a relevant market; (3) the significance of the complainant's conduct to the identification of the relevant market; and (4) whether the respondent need exercise market power in the relevant market in order for section 75 to apply.

(1) *Xerox Parts*

51 The parties called various economists to testify on their behalf as to the relevant product market. While the process of product market definition is clearly founded on economic analysis, the question of the "relevant" market for the purposes of section 75 depends largely on the construction of section 75 and the identification of its objectives within the context of the *Competition Act* as a whole. It is clear that much of the difference between the expert economists in this case rests upon differing views as to the objectives of section 75 rather than upon differences regarding the proper economic principles respecting market definition. This is particularly true of the evidence given by Professor Waverman. Whether much of this expert evidence was proper opinion evidence was not raised by counsel. In any event, to the extent that Professor Waverman or any other expert was opining on questions of law or on what they considered to be the proper policy of the legislation rather than giving what can legitimately be classified as expert evidence as an economist, the Tribunal has treated that opinion as the personal policy preference of the witness only.

52 "Product" is a term of art in competition law.²⁶ The determination of what is a relevant product, for any given purpose, carries with it an identification of the relevant product market. The relevant product and product market may be very broad or may be very narrow depending upon the context within which and the purpose for which that identification is required.

53 The Director argues that section 75 focuses on the objective of promoting efficiency and consumer choice through the enhancement of participation by individual businesses and that, therefore, the product market is most appropriately defined by reference to the acceptable substitutes available to the business refused supply in satisfying its customers. The Director submits that Exdos must satisfy its customers' demands for the refurbishing, service and sale of used copiers. Those customers own or wish to purchase Xerox machines and therefore, the Director continues, the technical inability to substitute other parts, to make or to keep the machines operational, limits the product definition to Xerox copier parts.

54 This is consistent with the position taken by the Tribunal in *Director of Investigation & Research v. Chrysler Canada Ltd.*:

Products and markets can only be meaningfully defined in a particular context and for a particular purpose. The approach to defining these terms may be entirely different where, as in the case of a merger, the ultimate test is whether the merger will substantially lessen competition and the definition must be consistent with the attempt to determine whether the merger will result in an increase in prices or in other effects consistent with a lessening of competition. In the case of paragraph 75(1)(a), the ultimate test concerns the effect on the business of the person refused supplies. Where products are purchased for resale, the effect on the business of the person refused supply will depend on the demand of the person's customers and whether substitutes are acceptable to them. Therefore, the starting point for the definition of "product" under section 75 is the buyer's customers.²⁷

55 The Director's expert economist in the present case, Professor Gillen, defined an economic market by reference to the following criteria:

An economic market is defined as an area in which prices of qualitatively similar goods tend to equality with allowance for transportation or transactions cost. In essence a market defined in this classical economic sense is the set of products within which prices are closely linked to one another by supply and demand and whose prices are relatively independent of prices of goods not in the market. The extent of the market can be measured by the degree of product substitution in the presence of relative price changes [cross elasticity of demand]. ... Products which are close substitutes will exhibit a high cross elasticity of demand or supply and would be included in the same market.²⁸

56 Professor Gillen accepted as a starting point that one possible market definition in this case was the product refused, post-1983 Xerox copier parts. In order to test this hypothesis, he asked: (1) whether a market for parts used by ISOs could be defined separately from a market for a service package demanded by end users; (2) whether parts and service are distinct and

separate products; (3) whether other companies' copier parts should be included in the market; and (4) whether Xerox sourced parts alone form the supply side. That is, he asked as a factual matter whether a market existed: whether there were demanders, suppliers, and transactions occurring. Then, he examined the boundaries of that market and since parts for different vintages and models of Xerox equipment cannot be substituted, he concluded that post-1983 Xerox copier parts was a relevant market.

57 The respondent's expert economist, Professor Waverman, considered this to be an overly simplistic approach. He attempted to demolish the analysis by stating that if post-1983 Xerox copier parts was a market (or submarket) then logically each part for each machine should be considered a separate market because they are non-substitutable one for the other. The Director's expert was not claiming, however, that post-1983 Xerox copier parts was an exclusive definition of the market which might exist in relation to copiers. Rather he was "limiting the scope of the parts under *consideration to those which were refused and which constitute the base of the definition for the market.*"²⁹

58 This approach is consistent with that which has been articulated in the academic literature. For example, Areeda and Turner emphasize the need to determine products and product markets by reference to the legislative purpose for which such identification is required:

One cannot determine ... the "proper" market definition, without reference to the legal context in which the issue arises. One must consider what is under attack, the substantive rules of liability that govern the particular case, and the relief that is at issue. ...³⁰

And, in a recent supplement to the same text, the authors note that:

... talk of markets and submarkets is both superfluous and confusing in an antitrust case, where the courts correctly search for a relevant market — that is a market relevant to the legal issue before the court.³¹

(underlining added)

59 This approach is also consistent with the decision in *R. v. J.W. Mills & Son Ltd.*,³² a decision to which both counsel referred. In *J.W. Mills & Son Ltd.*, a conspiracy prosecution, Mr. Justice Gibson stated:

In examining and assessing the competitive feature of the market structure, what is pertinent is the boundaries of the market because the determination of what competition is relevant is one of the key issues,

As a matter of law of course there is no definition of the "market" in relation to which the evidence of any alleged violation ... may be examined. What is the relevant market in every case is a matter of judgment based upon the evidence. ...

But speaking generally, it is of importance to bear in mind that the term "market" is a relative concept. In one sense, there is only one market in an economy since, to some extent, all products and services are substitutes for each other in competing for the customer's dollar.

In another sense, almost every firm has its own market since, in most industries, each firm's product is differentiated, to some extent, from that of all other firms.

Defining the relevant market in any particular case, therefore, requires a balanced consideration of a number of characteristics or dimensions to meet the analytical needs of the specific matter under consideration.

...

For this purpose the dimensions or boundaries of a relevant market must be determined having in mind the purpose for what it is intended. For example, two products may be in the same market in one case and not in another.

And many characteristics or dimensions may be considered in defining the relevant market. All are not of the same order. And, in any particular case, usually, not all of the many characteristics or dimensions will have to be considered. In some instances, the definition may turn on only one characteristic or dimension or two³³

(underlining added)

60 Mr. Justice Gibson then listed a number of characteristics which could be used in the definition of a relevant market: actual and potential competition; integration and stages of manufacturers; method of production or origin; physical characteristics of products or services; end users of products; product substitutability; geographic area; relative prices of goods or services. As arranged, the first three characteristics relate primarily to the supply side of the market, and the subsequent three to product substitutability. "Geographic area" is a conclusion rather than a factor in market definition and it would often be established after extensive analysis of the other factors. Price information can be used to draw conclusions about substitutability in supply, between products and over distance.

61 Professor Waverman for the respondent stated that the relevant product in the present case is the provision of a package of services which leads to the creation of an imaged piece of paper.³⁴ He was of the opinion that this definition is consistent with the manner in which the product is purchased by the final consumer. The respondent's expert economist did not deny that Xerox copier parts are products for which an identifiable market exists, a market in which persons wishing to service Xerox machines are customers. However, it was his view that this was not the *relevant* market for section 75 purposes. He argued that the product market which was relevant for section 75 purposes should be determined by reference to the market in which Xerox competes and that that is the end user market:

... the relevant competition is not that for Xerox proprietary parts, but among the providers of photocopying services, of which there are many.

To argue that the market is Xerox parts ignores the manner in which consumers make decisions. End-users (those who want photocopying services) are not indifferent to the prices of Xerox parts since ultimately that price, whether explicit or implicit, is a component of the cost per copy. Competition among providers of photocopying services in the cost per copy provides discipline in the market for parts.³⁵

Professor Waverman took the position that Xerox's actions in curtailing supply were motivated by competition in the copier market and would only, in the long run, result in the intensification of that competition. He was of the view that an order under section 75 would cause a welfare loss to consumers by substituting inefficient distribution systems for efficient (as dictated by the market) systems. Therefore, it was argued that the fact situation does not fall within either the spirit or intention of section 75.

62 Even if this position were correct, however, the evidence in the present case would not support a conclusion that the end-user market provides competitive discipline to the parts market. It is clear that at present Xerox does not price its parts by reference to competitive factors but, rather, sets prices according to an arbitrary "formula". In addition, even if Xerox were forced to price parts competitively in the long run, a present owner of a Xerox machine cannot easily, during the economic life of that machine, switch to another manufacturer's brand of copier. As counsel for the Director argues, it is no answer to Exdos' customers to tell them that "based on some Chicago School of Economics theory ... [they] should wait until the market rights itself" and that in the long term when they purchase their next copier they can purchase from a company that provides better and cheaper parts and service.

63 To turn then to a consideration of whether or not proprietary replacement parts should ever be categorized as a "product" or as constituting the base of a "product market", it should first of all be noted that the *Competition Act* and, in particular, section 75, is not limited to ensuring the availability of *final* products at competitive prices. The Act itself is not expressly so worded and there is nothing in the statement of its purposes which leads to a conclusion that such a limitation was intended. Indeed one of the purposes set out in section 1.1 of the Act is "to ensure that small and medium-sized enterprises have an equitable opportunity to participate in the Canadian economy". This would seem on many occasions to contemplate, if not require, action to preserve

the competitive situation in an intermediate market. It was argued to the Tribunal that if the respondent's interpretation of the legislation was correct, it would mean, for example, that because General Motors and Ford compete in the final market for automobiles there would be no definable market for captive parts for Ford cars. Or, it would mean that for purposes of the *Competition Act*, the concentration of upstream assets in the hands of suppliers, such as oil companies, should be ignored because such companies face retail competition downstream.

64 In other competition law contexts intermediate markets in proprietary replacement parts have been identified as relevant markets. None of these, of course, relate to section 75 of the *Competition Act*. They can only be cited, and have only been cited, for the purpose of demonstrating that such product markets *may* be relevant for competition law purposes. For example, in *R. v. Chatwin Motors Ltd.*,³⁶ the Crown alleged a conspiracy between franchised dealers with respect to one part of the motor vehicle parts and accessories market: captive parts for Ford and General Motors vehicles and, in particular, those captive parts secured on special orders where the dealer paid the freight charges. The British Columbia Supreme Court held that the only substantial competition in captive parts was between franchised dealers and that, however narrow a field of competition, the public was entitled to have it preserved.³⁷

65 In *Hugin Kassaregister AB v. Commission of the European Communities*,³⁸ Article 86 of the Treaty of Rome was under consideration. Article 86 provides that any abuse of a dominant position within the European Economic Community ("EEC") or a substantial part of it shall be prohibited insofar as it may affect trade between member states. The Swedish company and its subsidiaries had refused to supply spare parts for Hugin cash registers to a British firm that specialized in the service, reconditioning and renting out of Hugin cash registers. Hugin Kassaregister AB ("Hugin AB") argued that the supply of spare parts and of maintenance services was not a separate market but rather a component of the cash register market. The headnote describing the Commission's decision that Hugin AB had infringed Article 86 states in part that:

Where a particular brand of a product uses spare parts which are not interchangeable with spare parts of other brands of the same product and cannot otherwise be economically reproduced, and the parts are made to the (non-EEC) manufacturer's design, with tools belonging to the manufacturer and are exclusive to the manufacturer such that the manufacturer controls the supply of all its spare parts throughout the world, it enjoys a monopoly in the parts and thus, with its subsidiaries established in the EEC, holds a dominant position in the Common Market for the supply of such spare parts. It therefore has also a dominant position for the maintenance and repair of the product itself in relation to companies which need a supply of the spare parts. This is so even if the market share of the manufacturer in the product itself does not give him a dominant position in the product.

...

A manufacturer who has a monopoly in the supply of spare parts for his product and who delivers such parts only to his own subsidiaries and authorized dealers for their own use and not for resale abuses his dominant position in that he restricts competition through his refusal without objective justification to supply others.³⁹

66 In *Image Technical Service, Inc. v. Eastman Kodak Co.*,⁴⁰ it was held that a refusal by Eastman Kodak Co. ("Kodak") to sell copier equipment parts to ISOs, after having sold them to such businesses for several years, was a triable issue under section 2 of the Sherman Act.⁴¹ Section 2 makes it an offence to monopolize or to attempt to monopolize "any part of the trade or commerce among the several States, or with foreign nations". No definitive ruling was given on the facts of the case because the issue was addressed by the Ninth Circuit Court of Appeals in the context of an appeal from the summary dismissal of the plaintiffs' private antitrust action. In reaching the decision that such a summary dismissal was not appropriate, the Court stated:

... there is logical appeal in Kodak's theory that it could not have monopoly power (let alone market power) in the service market since it lacks economic power in the interbrand market. But in light of appellants' evidence we cannot say that this theory mirrors reality.⁴²

67 The same case also involved an allegation that Kodak had infringed section 1 of the Sherman Act in refusing to sell replacement parts to end users of its equipment except on condition that they not engage ISOs to service the copiers.⁴³ Kodak argued that parts and service formed a single product market and that therefore there could be no tying arrangement. The Court held that this argument presented, at best, a disputed issue of fact.

That products must be used together does not eliminate the possibility that they form distinct markets. ... Kodak's policy of allowing customers to purchase parts on condition that they agree to service their own machines suggests that the demand for parts can be separated from the demand for service.⁴⁴

68 The Court also stated that, assuming a tying arrangement existed, there was an issue of material fact as to whether Kodak had the requisite economic power in the tying product market. Plaintiffs/appellants argued that Kodak had power in the parts market because its parts were unique and because owners of its machinery could not readily switch. Kodak countered that it did not have market power in the interbrand market for copiers and therefore could not have market power in the after-market for spare parts. The Court stated:

We believe that competition in the interbrand markets might prevent Kodak from possessing power in the parts market. ... In this case, Kodak has tied parts to service, not equipment to parts. Interbrand competition in the equipment market does not in the abstract negate appellants' claim that Kodak has power in the parts market.

...

While appellants have not conducted a market analysis and pinpointed specific imperfections in the copier and micrographic markets, a requirement that they do so in order to withstand summary judgment would elevate theory above reality. It is enough that appellants have presented evidence of actual events from which a reasonable trier of fact could conclude that Kodak has power in the interbrand market and that competition in the interbrand market does not, in reality, curb Kodak's power in the parts market.⁴⁵

In coming to this decision the Court distinguished one of its earlier tying decisions: *General Business Systems v. North American Philips Corp.*⁴⁶

69 The decision in the *Image Technical Service, Inc.* case has been quoted at length because much of the expert evidence filed by the respondent in the present case seems infused with and based on concepts which exist in United States antitrust jurisprudence and upon arguments which have been made or are being made in relation thereto. These are not necessarily relevant to the interpretation of the Canadian legislation.⁴⁷ The case does demonstrate, however, that even in that jurisdiction proprietary replacement parts may be a relevant product market for competition legislation purposes.

70 In the present case, a determination of the relevant product market and an assessment of the extent of the market in which that product is situated, by reference to the product which has been refused and to factors such as those set out in the decision of Mr. Justice Gibson, are appropriate. The geographical extent of the market is not seriously in doubt; it has basically been assumed to be Canada. Prior to the implementation of the refusal to supply by both Xerox Corp. (U.S.) and Rank Xerox, the market might have been described as larger in extent; parts could, at that time, be imported.

71 The boundaries of the product market can properly be defined as parts for Xerox copiers. The relevant submarket, or class of product falling within that market, for purposes of the present case, is parts for post-1983 model copiers. There is no compelling reason flowing from either the legislative text of section 75 or from general economic principles which requires that proprietary replacement parts should not be considered to be a relevant product for section 75 purposes.

72 The consumers of the product are Exdos, other ISOs and those Xerox customers who service the machines themselves. While the Director's expert economist's position is that Xerox is the sole supplier, he also notes that this is essentially a factual question rather than one for expert evidence. Professor Gillen identifies Xerox as the sole supplier because other sources of

supply located both within Canada and without are qualitatively different from the supply provided by Xerox. In the Tribunal's view, it is more accurate to identify the suppliers, prior to the refusal to supply, as Xerox, other ISOs, Rank Xerox, and the independent manufacturers of parts.

(2) *Vertical Integration*

73 The respondent has put forward several arguments with respect to the proper market definition which are based on conclusions of fact not supported by the evidence. For the sake of completeness, however, they will be discussed. One such argument is that the end-user market and not the parts market should be identified as the relevant market because the industry norm is one of vertical integration. It is argued that vertical integration is adopted by firms for reasons of efficiency and that it should be assumed in this case that this is the reason for Xerox's desire to remain with or return to a system of vertical integration.

74 "Vertical integration" was used by the respondent's expert in a very limited sense, as meaning only that Xerox did not sell parts except to end users, not that Xerox only provided its parts through its own service technicians. It is clear that Xerox, for many years, sold parts freely and openly to anyone who wished to purchase them; sales were not limited to end users. Xerox did not practice a system of vertical integration even in the sense in which that term has been used in the evidence by Professor Waverman and Xerox does not practice vertical integration in any more comprehensive sense, since it is still willing to sell parts directly to end users. Nor does the evidence establish that vertical integration is the norm in the industry either in this restricted sense or in a more general one.

75 The respondent's expert stated that firms adopt vertically integrated structures for reasons of economic efficiency⁴⁸ and that if vertical integration is not preserved the benefits which accrue therefrom (e.g. the use of increased service revenues to defray high research and development costs or the ensuring of a consistent quality of service) are denied to consumers. The difficulty with the respondent's expert's argument is that it is entirely hypothetical. While it may be true that firms adopt systems of vertical integration for efficiency reasons, there is no evidence that such is true in the present case.

76 Whether situations where vertical integration is either the norm in the industry or is dictated by reason of economic efficiency fall within section 75 can only be determined in the context of cases where a relevant factual basis exists. It may be that such factors would lead the Tribunal to conclude that a product market did not exist or it may be that they would lead the Tribunal to conclude that the complainant's inability to obtain supply did not arise "because of insufficient competition among suppliers of the product in the market". But it suffices for present purposes to note that the conclusions of fact which are sought to be drawn, in this case, to support such an argument cannot be substantiated.

(3) *Conduct of Complainant/Burden on Xerox*

77 The respondent alleges that no market was established because Reid acquired parts through subterfuge. As has been noted elsewhere, this is not supported by the evidence. Also, the evidence does not support a conclusion that Reid was refused supply because of particularly onerous administrative obligations and expenses which arose for Xerox as a result of dealing with him (e.g. inventory costs). Nor is there convincing evidence that Exdos can "free ride" on Xerox's investments in many areas. There is evidence that many of the ISO dealers who were part of the Exdos network and some of the Nezron service people were ex-Xerox employees who had been trained by Xerox to service Xerox equipment. But this is hardly sufficient to constitute the "free-riding" which is alleged. There is also no convincing evidence that Xerox could be injured because Exdos generally would not, and could not be expected to, take the standard of care in maintenance and repair of Xerox machines that Xerox would. Nor is there evidence to support the assertion that Xerox's reputation suffers every time Exdos is unable to service a photocopier properly or that if Exdos-Nezron is unable to fix a machine it then calls on Xerox to fix the machine. In fact, it might be argued that Exdos, perhaps more than Xerox, has an *immediate* interest in providing timely, high-quality service and repairs since that is its business. In general, it is to be noted that Professor Waverman's expert affidavits are replete with assertions of fact that are entirely unsupported by the evidence.

78 Whether factors relating to the conduct of the complainant or the administrative burden or other costs placed upon a supplier might be relevant to a determination of the existence and the definition of a product market can only be assessed in

the context of a case where factual evidence establishes that *such* factors exist. It may be that the existence of those factors would lead the Tribunal to conclude that a "product market" did not exist, or more likely, it may be that they would lead the Tribunal to conclude that the inability of the complainant to obtain adequate supplies did not arise "because of insufficient competition among suppliers of the product in the market" but rather for objectively justifiable business reasons, or that as a matter of discretion an order to supply should not be given. It suffices for present purposes to note, as with the arguments based on vertical integration, that the conclusions of fact which are sought to be drawn, in this case, to support those arguments, cannot be substantiated.

(4) Market Power of the Respondent

79 One last consideration respecting the definition of the relevant product market should be considered, that is, whether the market must be one in which the respondent exercises "market power". As will be noticed from the references above to both EEC competition law and the United States antitrust jurisprudence, this is a question which is relevant in those jurisdictions. A similar argument was addressed by the Tribunal in the *Chrysler Canada Ltd.* decision:

The economist, Professor Ralph A. Winter, who appeared as an expert witness on behalf of the respondent, submits that the Tribunal should approach the definition of product and market not from the point of view of Brunet as a buyer, but from the viewpoint of determining whether Chrysler has substantial market power. This, he submits, can only be done by considering what Chrysler sells and with whom it competes. He concludes that the relevant market is synonymous with the worldwide sale of automobiles since the price of auto parts is established in conjunction with the pricing of vehicles. It is Winter's view that Chrysler's pricing of parts is constrained by the effect this can have on the sale of its vehicles and that it faces very stiff competition in the sale of its vehicles. Winter concludes that since Chrysler does not have substantial market power as a seller of vehicles, its decision to discontinue supplying Brunet was motivated by concerns for efficiency and not to increase its market power.

This argument is presented by Winter in relation to the definition of product and market and also in conjunction with the Tribunal's use of its discretion to grant an order in the event that it finds that all of the elements have been satisfied by the applicant. The Tribunal is satisfied that a broad consideration of Chrysler's market power is not required in determining whether the specific elements of section 75 of the Act have been satisfied but may be relevant in the Tribunal's exercise of its discretion.⁴⁹

80 This argument has already been dealt with to some extent above, in the context of the discussion of what constitutes a relevant product market for section 75 purposes. If the relevant product market is identified as parts, then it is clear that Xerox has almost a monopoly position in that market. If the product market is copiers then Xerox still has substantial power in that market. Whether or not it could be said to have a dominant position was not in issue in this case. In any event, it is useful to stress that the respondent's market power is not an element which need be proven for the purposes of obtaining a section 75 order. It may be that it will be rare to find a situation in which a supplier refuses to supply a would-be purchaser, for anti-competitive reasons, without holding significant market power in the relevant market. It would be counterproductive if the would-be purchaser could easily find an alternate source of supply. Nevertheless, neither the identification of the relevant product nor the definition of the relevant market hinges, for section 75 purposes, on an assessment of the respondent's market power in the relevant market. All that is required is that the complainant's inability to obtain adequate supplies occur "because of insufficient competition among suppliers of the product in the market".

D. Insufficient Competition Among Suppliers of the Product

81 Although section 75 does not directly demand that the Tribunal find any specified effect on competition in the market resulting from the refusal to supply, it is clear that not all situations where a supplier decides to discontinue selling its products to a customer will fall within the section. Paragraph 75(1)(b) requires that the person who has been refused the product be "unable to obtain adequate supplies of the product because of insufficient competition among suppliers of the product in the market".

82 Thus, a particular market situation must exist at the time of the refusal, a situation that can fairly be described as "insufficient competition among suppliers". How much competition between suppliers is insufficient will depend on the facts of the particular case. Clearly a market composed of numerous suppliers acting independently would not qualify. (It is also very difficult to conceive of a case before the Tribunal where so many of a multitude of suppliers would refuse to supply an individual that his business could be "substantially affected". One would postulate that if one supplier did not want the business, another would be more than happy to earn the extra revenue.)

83 In addition, the refusal to supply must occur "*because* of insufficient competition among suppliers of the product". That is, the overriding reason that adequate supplies are unavailable must be the competitive conditions in the product market.

84 In this case, the Director submits that since the relevant product market is confined to Xerox parts, the only issue raised by paragraph (b) is whether adequate supplies can be obtained from sources other than Xerox itself. Since, as was discussed above, the alternative sources are neither adequate nor economically viable, the Director argues that, by definition, the market for these parts is characterized by insufficient competition. On this characterization, this is undoubtedly true, since Xerox is, for all practical purposes, a monopolist in its own proprietary parts.

85 The respondent's argument on this point is inextricably linked to its position on the question of the definition of the relevant product market for section 75 purposes. The respondent submits that the wording of paragraph (b) contemplates that the "market" should consist of more than one supplier since the word "suppliers" is specifically used. Therefore, the respondent reiterates, the relevant market must be that in which the manufacturers of copiers compete.

86 In response to questions concerning the proper interpretation of the phrase "because of insufficient competition *among suppliers* in the market", counsel for the Director pointed out that the usage of the word "suppliers" in that phrase can legitimately apply to a situation where the refusal emanates not only from a dominant manufacturer/supplier of parts but also from a single supplier. Subsection 33(2) of the *Interpretation Act*,⁵⁰ clearly establishes at least a presumptive rule that "words in the plural include the singular".

87 Counsel for the Director further argued that, although such a presumption could be overturned if dictated by the context in which the particular phrase occurred, an interpretation including the singular⁵¹ is supported by reference to the rest of section 75. He submitted that the intent of section 75 was clearly to *catch* rather than to *exclude* the single supplier market. Counsel pointed to subsection 75(2) to support this argument: subsection 75(2) would allow an article differentiated by a trademark or proprietary name to be considered a separate "product" for the purposes of the section *if* the article occupies such a dominant position in the market as to substantially affect the ability of the person denied access to carry on business. In appropriate circumstances, he argued, this would lead to a product market definition limited to a proprietary or trademarked article with a dominant position and therefore the order would issue against a sole supplier.

88 The Tribunal accepts that the use of the plural in paragraph 75(1)(b) includes the singular. There has been no convincing argument before us that would lead us to conclude that the statutory context of that paragraph dictates otherwise. It would import a logical inconsistency into the section to hold that a supplier of the relevant product in, for example, a market with three or four suppliers, could be subject to review by the Tribunal for refusing to supply while a supplier with a monopoly position could not be.

89 Many arguments were made to the Tribunal concerning the implications an order to supply proprietary replacement parts would have for the future application of section 75. The *Chrysler Canada Ltd.* decision has already established that an order to supply proprietary replacement parts can properly be issued pursuant to section 75. Many of the arguments raised before the Tribunal in this case were also raised in that case; many refer to hypothetical situations which it is suggested might arise in the future and with respect to which it is argued that the Tribunal might, then, have to make a section 75 order if such an order is granted in this case.

90 As has already been noted, it is difficult to deal with this kind of argument. In the absence of an actual situation establishing the facts which are hypothesized, a conclusion that they might or might not justify a section 75 order is difficult to make. For example, it has been suggested that if an order can be given in the circumstances of this case one might also issue in a situation where a manufacturer/supplier of proprietary parts had never unbundled the sale of its parts from the sale of its machines. Whether such an order could properly be obtained under section 75 is not in issue in this case, but one can ask whether the Director, in such circumstances, would be able to prove the existence of a market for the product in question; one can ask whether a complainant could say that his or her business was substantially affected by such a refusal to supply. It is useful to quote some of the respondent's argument which seems to recognize this:

It was accepted by all the economic experts that from an economic perspective there is nothing either inefficient or anti-competitive about a manufacturer carrying on business within a vertically integrated structure.

...

The only competition issue arises then, when a manufacturer operates in a fashion to "break the bundle" of goods and services and to create a market where none previously existed. The most typical situation in which this occurs is at the dealer level.

If a manufacturer distributes his product through a dealer network then it may be appropriate to look at the competition aspects of this market so created to ensure that as between dealers there is not discrimination and restricted competition.

...

Absent the conduct of the manufacturer which can clearly and unequivocally be said to have created a market for parts at the dealer level there is no competition issue to be dealt with.⁵²

In the present situation the manufacturer/supplier did create a market for Xerox copier parts. It created a market for Xerox copier parts not through use of a dealer network but by selling to anyone who wished to purchase.

91 Another hypothetical situation raised was whether section 75 could catch a manufacturer who refused to supply certain customers merely because he wished to change his distribution system for the product. Again, in the absence of an actual factual situation, it is impossible to conclusively answer such a question. At the same time, one can question whether an inability to obtain supply in such circumstances would necessarily meet the test of occurring "because of insufficient competition among suppliers of the product in the market". It may very well be that the inability to obtain supply in such circumstances could be related to a legitimate business decision unconnected to anti-competitive factors. In any event, the present situation is not one in which the respondent is attempting to change its dealer distribution system. And, it is abundantly clear that the decision was taken for the very purpose of curtailing competition in the after-sale market.

92 The last consideration which is relevant to this issue is the legislative framework of section 75. Counsel for the Director argues and the Tribunal accepts that section 75 must be read in the light of the express purposes of the legislation and the other provisions of the Act. Section 1.1 describes the purposes of the *Competition Act* as including "to ensure that small and medium-sized enterprises have an equitable opportunity to participate in the Canadian economy" and "to provide consumers with competitive prices and product choices." Both these purposes would be served by granting an order in favour of Exdos as sought by the Director. Exdos will continue to have an "equitable opportunity to participate" and consumers will have price and product choices available which they would not otherwise have.

IV. Constitutional Issues

93 The constitutional jurisdiction of the Parliament of Canada to enact section 75 is challenged. The respondent argues that if the Tribunal can make an order under section 75 to govern a supplier's conduct without reference to the effect on competition that section is legislation with respect to property and civil rights in the province (subsection 92(13) of the *Constitution Act*,

1867⁵³) and that it is not legislation with respect to any matter falling under Parliament's jurisdiction pursuant to section 91 of the *Constitution Act, 1867*. Even if the section might otherwise be constitutionally valid, counsel argues that it is inoperative with respect to the facts of this case because the facts do not encompass a situation where the refusal to supply is one having anti-competitive effects.

94 In addition, issues respecting the constitutionality of the Tribunal itself are raised. These last rely on the decision of Mr. Justice Philippon of the Superior Court of Quebec in *Alex Couture Inc. c. P.G. Canada*.⁵⁴

A. Constitutionality of Section 75

95 The starting point for a discussion of the constitutionality of a provision of the *Competition Act* is the Supreme Court decision in *General Motors of Canada Ltd. v. City National Leasing*.⁵⁵ That decision dealt with the constitutionality of section 31.1, added to the *Combines Investigation Act* in 1976,⁵⁶ which section provided that a person who had suffered damage as a result of conduct contrary to Part V of that Act (the criminal offences) or in breach of an order of the Restrictive Trade Practices Commission or a court, could sue for damages. In the *City National Leasing* decision, Chief Justice Dickson referred to the history of subsection 91(2) (the federal trade and commerce power) of the *Constitution Act, 1867*.⁵⁷ He noted that *Citizens Insurance Co. of Canada v. Parsons*⁵⁸ had established three important propositions with regard to the federal trade and commerce power:

... (i) it does not correspond to the literal meaning of the words "regulation of trade and commerce"; (ii) it includes not only arrangements with regard to international and interprovincial trade but "it may be that ... (it) would include general regulation of trade affecting the whole dominion"; (iii) it does not extend to regulating the contracts of a particular business or trade.⁵⁹

96 The Chief Justice noted that since *Parsons*, the jurisprudence relating to subsection 91(2) had largely consisted of an elaboration of federal authority with respect to "international and interprovincial trade" and that the second branch of federal authority, that with respect to the power over "general trade and commerce affecting Canada as a whole", had remained largely unexplored. He indicated that in assessing the interaction of subsection 91(2), Parliament's authority to legislate in relation to trade and commerce, with subsection 92(13), provincial legislative authority in relation to property and civil rights in the province, a balance must be struck:

... somewhere between an all pervasive interpretation of s. 91(2) and an interpretation that renders the general trade and commerce power to all intents vapid and meaningless.⁶⁰

97 The Chief Justice cited *MacDonald v. Vapor Canada Ltd.*,⁶¹ where three criteria were set out as relevant in assessing the constitutionality of legislation in relation to general trade and commerce under the second branch of *Parsons*: (1) the impugned legislation must be part of a general regulatory scheme; (2) the scheme must be monitored by the continuing oversight of a regulatory agency; (3) the legislation must be concerned with trade as a whole rather than with a particular industry.⁶² Chief Justice Dickson also adopted two further criteria, identified in *A.G. Canada v. Canadian National Transportation Ltd.*,⁶³ that were relevant in assessing the constitutional validity of legislation in relation to general trade and commerce; (4) the legislation should be of a nature that the provinces jointly or severally would be constitutionally incapable of enacting; and (5) the failure to include one or more provinces or localities in a legislative scheme would jeopardize the successful operation of the scheme in other parts of the country.⁶⁴ The five factors thus identified were said to be *indicia* which, however, *did not represent an exhaustive list of traits* which might be relevant for the purpose of characterizing legislation as general trade and commerce legislation. Also, *the presence or absence of any one criteria was held not to be necessarily determinative*, in reaching a decision with respect to the legislation's constitutional characterization.

98 Throughout its history, various provisions of the *Combines Investigation Act* have been subject to challenge on constitutional grounds.⁶⁵ The Act was extensively amended in 1976 and again in 1986 when it was renamed the *Competition Act*. It is unnecessary to describe the substance of these amendments; they are well known. Suffice it to say, they too have given rise to several constitutional challenges.

99 In addition to the Supreme Court decision in *City National Leasing*, several other of the 1976 amendments were challenged and supported. In *P.G. Canada c. Miracle Mart Inc.*,⁶⁶ the Court held that the prohibition on making sales above advertised prices (a criminal offence) was constitutionally valid under Parliament's power over trade and commerce. The Federal Court of Appeal in *Re BBM Bureau of Measurement and Director of Investigation and Research*⁶⁷ was of the opinion that the reviewable trade practice of tied selling (previously the jurisdiction of the Restrictive Trade Practices Commission and now within that of the Tribunal) was valid federal legislation under subsection 91(2). Most recently, in *Alex Couture Inc. c. P.G. Canada*,⁶⁸ Mr. Justice Philippon upheld Parliament's legislative authority to enact the civil merger provisions, added to the *Competition Act* in 1986, under the trade and commerce power. He struck down those provisions on the basis that they violated the freedom of association of commercial undertakings subjected to them.

100 As a result of the various constitutional challenges and particularly the Supreme Court decision in *City National Leasing* it is clear that the general legislative scheme of the *Competition Act* is constitutionally valid. In *City National Leasing* Chief Justice Dickson wrote with respect to the *Combines Investigation Act* as amended up until 1980:

From this overview of the *Combines Investigation Act* I have no difficulty in concluding that the Act as a whole embodies a complex scheme of economic regulation. The purpose of the Act is to eliminate activities that reduce competition in the market-place. The entire Act is geared to achieving this objective. The Act identifies and defines anti-competitive conduct. It establishes an investigatory mechanism for revealing prohibited activities and provides an extensive range of criminal and administrative redress against companies engaging in behaviour that tends to reduce competition. In my view, these three components, elucidation of prohibited conduct, creation of an investigatory procedure, and the establishment of a remedial mechanism, constitute a well-integrated scheme or regulation designed to discourage forms of commercial behaviour viewed as detrimental to Canada and the Canadian economy.⁶⁹

While that decision related to the *Combines Investigation Act* before the amendments of 1986, the reasoning and conclusions are equally applicable to the amended legislation.⁷⁰

101 Indeed counsel for the respondent does not contest the constitutional validity of the Act as a whole. Rather he argues that section 75 is invalid, if it carries an interpretation which would allow it to apply whether or not there is an effect on competition. Counsel's argument in this regard mirrors Chief Justice Dickson's characterization of the *City National Leasing* case as one where:

The issue is not whether the Act as a whole is rendered *ultra vires* because it reaches too far, but whether a particular provision is sufficiently integrated into the Act to sustain its constitutionality.⁷¹

102 Counsel for the respondent argues, in addition, that even if section 75 is valid it cannot support an order which affects a manufacturer's legitimate business interests but is not founded upon an effect on competition. That is, the section may be constitutionally valid but still inoperative with respect to certain factual situations. If the section's breadth is such as to encompass both orders directed at the preservation of competition and those which are not, then the section might be operative to support the former but inoperative with respect to the latter. This second prong of the constitutional argument is easily disposed of given the findings of fact which have been made. It is clear that the order sought, in the present case, is directly related to the preservation of competition in the service market for Xerox copiers. It is also directed to the preservation of the competition which exists as a result of the existence of a second-hand market for those machines. Thus, if section 75 is valid it is operative to support an order in the present circumstances.

103 To turn then to the constitutional validity of section 75. The approach to be taken, when an isolated section of an Act is being assessed for constitutionality, was addressed in *City National Leasing*. In that case it was argued that section 31.1 taken alone was clearly unconstitutional because it was legislation in relation to property and civil rights in the province. A contrary argument was put, urging that the section could not and should not be assessed in isolation but had to be considered in the context of the scheme of the Act as a whole. The Chief Justice answered these arguments by stating that if the impugned provision was clearly constitutional as within federal authority and did not intrude on provincial authority, then, no further consideration was needed:

[I]f in its pith and substance the provision is federal law, and if the act to which it is attached is constitutionally valid (or if the provision is severable or if it is attached to a severable and constitutionally valid part of the act) then the investigation need go no further. In that situation both the provision and the act are constitutionally unimpeachable. If, as may occur in some instances, the impugned provision is found to be constitutionally unimpeachable while the act containing it is not, then the act must be assessed on its [sic] own. In these instances, it is clear that the claim of invalidity should originally have been made against the act and not against the particular provision.⁷²

104 In most cases, however, it was noted that it was likely that an impugned section could be characterized as being, *prima facie*, in relation to a provincial head of power (intruding to some extent on provincial powers). The degree of "intrusion on provincial powers" is to be assessed not for the purpose of ascertaining the section's constitutionality but in order to weigh this as a factor in assessing the justification of the section as part of the regulatory scheme of the legislation as a whole.

105 Next, it is necessary to assess the constitutional validity of the legislative scheme as a whole. Once this is done the relationship between the impugned provision and the legislative scheme is to be assessed by reference to a test which is of varying strictness. The strictness of the test varies with the degree of intrusion which the impugned section exhibits with respect to provincial powers. The mere inclusion of a provision in a valid legislative scheme does not *ipso facto* confer constitutional validity upon that provision:

[T]he court must focus on the relationship between the valid legislation and the impugned provision. Answering the question first requires deciding what test of "fit" is appropriate for such a determination. By "fit" I refer to how well the provision is integrated into the scheme of the legislation and how important it is for the efficacy of the legislation. The same test will not be appropriate in all circumstances. In arriving at the correct standard the court must consider the degree to which the provision intrudes on provincial powers. The case law, to which I turn below, shows that in certain circumstances a stricter requirement is in order, while in others, a looser test is acceptable. For example, if the impugned provision only encroaches marginally on provincial powers, then a "functional" relationship may be sufficient to justify the provision. Alternatively, if the impugned provision is highly intrusive *vis-à-vis* provincial powers then a stricter test is appropriate. A careful case by case assessment of the proper test is the best approach.

In determining the proper test it should be remembered that in a federal system it is inevitable that, in pursuing valid objectives, the legislation of each level of government will impact occasionally on the sphere of power of the other level of government; overlap of legislation is to be expected and accommodated in a federal state. Thus a certain degree of judicial restraint in proposing strict tests which will result in striking down such legislation is appropriate.⁷³

The Chief Justice then referred to the various ways the required "fit" or test had been described. He listed these in what appears to be an ascending order of strictness: having a rational and functional connection; ancillary to the main purpose of the legislation; necessarily incidental; truly necessary; having an intimate connection; being an integral part of the scheme.

106 The Chief Justice found that since section 31.1 of the *Competition Act* constituted a minimal intrusion on provincial authority, it was only necessary to demonstrate that a rational and functional connection existed between that section and the overall scheme of the legislation. At the same time he indicated that section 31.1 could also have been justified on the basis of a stricter test; it could have been classified as an integral part of the legislative scheme.

107 What then of section 75. It is obvious that a section 75 order may affect the property and civil rights of the person who is ordered to supply and of the person receiving supply. The effect of the section, however, as an intrusion into a provincial legislature's domain with respect to property and civil rights in the province, is not generally very extensive. The section is not, as the respondent has suggested, aimed primarily at governing or regulating contractual relations. That effect is secondary. The section's impact is limited and carefully constrained to redress conduct which is considered to be of competitive prejudice. Simply refusing to supply is not an offence in itself. Section 75 is one of a group of trade practices that are *reviewable* and that *may* be prohibited if certain conditions are met. The elements of paragraphs 75(1)(a), (b), (c) and (d) limit the application of the section and its effect.

108 Pre-1976 the only prohibitions in the *Combines Investigation Act* which dealt, indirectly, with refusal to supply, were conspiracy, monopoly and resale price maintenance. It was decided that there was a need to deal with refusal to supply in cases having anti-competitive effects, that is, where a person, because of an uncompetitive supply situation in a market, was unable to obtain adequate supplies of a product essential to the operation of his business. Section 75 provides that this type of refusal may be prohibited by the Tribunal; other, justifiable refusals will not be so prohibited.

109 Section 75 is not a greater interference with provincial jurisdiction than many other valid remedial or prohibitory provisions of the Act which are directed toward controlling competitively undesirable conduct. Such remedies or prohibitions always affect property and civil rights or local contracts within a province to some extent. Certainly the effect on property and civil rights of an order under section 75 is no greater than one under section 77 of the Act (tied selling) or those which regulate mergers and hence affect contracts that may involve parties wholly within a province.

110 While section 75, unlike section 31.1, is a substantive provision, it is limited in scope and application. It can only be called into play when the Director, after investigation, initiates an action. There is good reason to conclude, then, that the section attracts a no more stringent test than the rationally and functionally related test which was applied to section 31.1. However, like section 31.1, it could satisfy a more stringent test if required.

111 Section 75 can certainly be characterized as ancillary to the main purpose of the legislative scheme as well as having an intimate connection thereto. The immediate effect of an order to supply is to open up channels of distribution and free competitive forces hindered by lack of access to supplies. The section's objective is to promote or preserve competition. Section 75 operates within the same regulatory parameters as do the other provisions of Part VI. Only the Director may bring an application to require that an order to supply be issued. The Director does so after investigation and in the context of the common enforcement policy of the Act with which he is charged.

112 Accordingly, section 75 meets the required test set out in *City National Leasing*.

B. Constitutionality of the Competition Tribunal

113 The parties filed an agreed statement of facts on which an argument could be founded to challenge the constitutionality of the Tribunal. The argument contemplated would follow that set out in the decision of the Quebec Superior Court in *Alex Couture Inc. c. P.G. Canada*⁷⁴ This argument, however, was being considered by another panel of the Competition Tribunal, insofar as it related to that panel's constitutional validity, in the hearing of the application in *Director of Investigation and Research v. The NutraSweet Company*. The parties to the present proceeding, accordingly, agreed that rather than rearguing the issue in the context of this case, they would be bound by the decision given in *The NutraSweet Company* case. The agreement provides that either party is free to appeal from a finding of the Tribunal as though the constitutional question raised in *The NutraSweet Company* case had been fully argued and decided in the context of this case.

114 The decision in *The NutraSweet Company* case has now been rendered.⁷⁵ The conclusion reached, contrary to that in the *Alex Couture Inc.* case, is that the panel of the Tribunal hearing that case was validly constituted. Pursuant to the agreement of the parties, that decision is taken as also applicable to the panel hearing this case.

V. Conclusion

115 As has been set out above, Xerox followed a practice, for a number of years, of selling parts to willing purchasers. As a result of that practice independent service organizations grew up and a second-hand market in Xerox copiers developed. The refusal of Xerox to supply parts to Exdos and to others (except end users) was specifically designed to eliminate competition in the service market. Xerox's refusal was part of a concerted effort to eliminate such competition. This effort was initiated originally by Xerox Corp. (U.S.). It was subsequently adopted both in Canada and elsewhere, for example, by Rank Xerox in the United Kingdom.

116 Section 75 of the *Competition Act* states that where, pursuant to an application by the Director, the Tribunal finds that a person is substantially affected in his business due to an inability to obtain adequate supplies of a product in the market and that inability occurs because of insufficient competition among suppliers of the product, the Tribunal may order a supplier to accept the person as a customer.

117 In the present case, for the reasons which have been given, the Tribunal finds that all the requirements of section 75 have been met. Therefore an order will issue, as requested by the Director, requiring Xerox to accept Exdos as a customer for post-1983 Xerox copier parts. These will not include parts for the 50 Series copiers. As has been noted, there has been no evidence adduced that a lack of supply of those parts would substantially affect the Exdos business.

VI. Order

118 FOR THESE REASONS, THE TRIBUNAL HEREBY ORDERS THAT:

119 The respondent, Xerox Canada Inc., shall accept the Exdos Corporation as a customer for the supply of Xerox copier parts, manuals and related resources on usual trade terms.

120 This order does not encompass parts for 50 Series copiers or for any model of copier which has not yet been introduced, with respect to which no evidence was placed before the Tribunal.

Footnotes

1 R.S.C. 1985, c. C-34, as amended.

2 The "end user" is the person who, irrespective of *ownership*, is *in possession of* and actually *uses* one or more Xerox copiers.

3 The "10 Series copiers" are also referred to in the evidence as the "Marathon" family of copiers.

4 The other options open to Xerox at the time were to: (1) refurbish as many of the machines as the market would bear to an "as new" condition and scrap the remainder (as it had been doing in the past); or (2) develop an in-house second-hand market division.

5 Model Nos. 660, 3100, 3103, 3107, 4000, 4500, 2400, 3600, 7000; all were pre-10 Series machines.

6 The 9000 Series of copiers both pre-dated and post-dated 1983 and the introduction of the 10 Series. They were manufactured from 1979 to 1986.

7 Some 9000 and 10 Series copiers were acquired by Exdos, at a later period of time, through Xerox sales representatives. Such representatives, when faced with competition from other copier manufacturers for the business of a particular customer, would persuade the customer to buy a new Xerox machine by offering a better price for the old machine. They would contact Reid to buy the customer's machine because Exdos would pay more for the used copier than Xerox allowed on a trade-in. In such cases, Exdos sometimes made the purchase cheque payable to the customer and sometimes to Xerox directly, depending on who actually owned the machine. Reid did not hide from Xerox the fact that this activity was taking place although he did refuse to name the sales representatives who were approaching him. Xerox did not approve of this activity by its sales representatives.

- 8 Models Nos. 2300, 2350, 5400, 5600 and the older 9000 Series machines.
- 9 Exhibit A-1, tab 26.
- 10 Exhibit A-1, tab 35.
- 11 Exhibit A-1, tab 56A, clause 12.
- 12 Exhibit A-1, tab 55.
- 13 Exhibit A-1, tab 230. These prices are taken from a February 1990 letter soliciting business for Neutron. The Tribunal has taken due account of the fact that this is promotional material.
- 14 Transcript at 547-48 (13 June 1990).
- 15 *Ibid.* at 550.
- 16 *Ibid.* at 552.
- 17 "Volume" refers to the copier's rate of copy production per minute.
- 18 Exhibit A-1, tab 114A.
- 19 Exhibit A-1, tab 114E.
- 20 Discussed *infra* at 27ff.
- 21 Exhibit A-1, tab 153, Attachment A.
- 22 Exhibit A-1, tab 117.
- 23 Exhibit A-1, tab 179.
- 24 A copy of the policy is included in Exhibit A-1, tab 201.
- 25 Exhibit A-1, tab 198.
- 26 S. 2(1) of the *Competition Act* defines "product" as "including an article and a service".
- 27 (1989), 27 C.P.R. (3d) 1 at 10.
- 28 Expert affidavit of D. Gillen at para. 17 (Exhibit A-1, tab 2).
- 29 Expert affidavit of D.W. Gillen (reply to L. Waverman) at para. 4 (Exhibit A-3, tab 6) (emphasis added).
- 30 P. Areeda & D.F. Turner, *Antitrust Law: An Analysis of Antitrust Principles and Their Application*, vol. 2 (Boston: Little, Brown, 1978) at para. 518 [references omitted].
- 31 P.E. Areeda & H. Hovenkamp, *Antitrust Law: An Analysis of Antitrust Principles and Their Application*, 1989 Supp. (Boston: Little, Brown, 1989) at para. 518.1c [references omitted].
- 32 [1968] 2 Ex. C.R. 275, aff'd (*sub nom. J.W. Mills & Son Ltd. v. R.*) (1970), [1971] S.C.R. 63.
- 33 *Ibid.* at 304-6.
- 34 Expert affidavit of L. Waverman at para. 9 (Exhibit A-3, tab 3):

the provision of the services of imaged pieces of paper with a given set of cost and performance specifications, through the provision of reprographic equipment and the service, parts and supplies, required to enable the equipment to produce copies on a regular basis with minimum interruption from the equipment not working.

- 35 Expert affidavit of L. Waverman (rebuttal to D.W. Gillen) at para. 9 (Exhibit A-3, tab 4).
- 36 (1978), 37 C.P.R. (2d) 156 (B.C.S.C.). The appeal courts quashed the Crown's appeal on the basis that it involved questions of fact: (1978), 7 B.C.L.R. 171, 40 C.P.R. (2d) 106 (C.A.), aff'd [1980] 2 S.C.R. 64.
- 37 The Court found an agreement between the dealers to levy a freight charge on the special orders but also decided that the agreement had no effect on the competitive nature of their dealings. In fact, the Court accepted the defendants' argument that they were improperly joined in the same conspiracy charge since there was never any competition between Ford and General Motors dealers that could have been restricted by an agreement.
- 38 (No. 22/78), [1979] C.M.R. 7439 (E.C.J.).
- 39 *Liptons Cash Registers and Business Equipment Ltd v. Hugin Kassaregister AB* (1977), [1978] 1 C.M.L.R. D19. The Court of Justice also found that Hugin parts required by independent undertakings constituted a relevant market for the purposes of applying Article 86 to the facts before it and that Hugin had a dominant position in that market. The Court annulled the decision of the Commission on the narrow ground that the actions of Hugin had not affected trade between member states since the servicing, rental and sale of cash registers was a local business by nature.
- 40 No. 88-2686 (9th Cir., 1 May 1990).
- 41 15 U.S.C. § 1-7.
- 42 *Supra*, note 40 at 3643.
- 43 Section 1 of the Sherman Act declares "every contract, combination ... or conspiracy, in restraint of trade or commerce" illegal. The particular restraint alleged in this case was the illegal tying of parts to service. In order to be successful in such a claim, the plaintiff had to prove: (1) that separate markets for parts and service existed and (2) that the defendant had sufficient economic power in the tying product market (parts for Kodak copiers) to restrain competition appreciably in the tied market (service for Kodak copiers).
- 44 *Supra*, note 40 at 3632-33.
- 45 *Ibid.* at 3634-36.
- 46 699 F. 2d 965 (9th Cir. 1983). The dissenting judge in *Image Technical Service, Inc.* described the argument accepted by the Ninth Circuit in *General Business Systems* as "similar" to the reasoning set out by Judge Posner (of the Seventh Circuit) in dissent in *Parts & Electric Motors, Inc. v. Sterling Electric, Inc.*, 866 F. 2d 228 (7th Cir. 1988). The dissenting judge was of the opinion that: the majority has misconstrued the nature of Kodak's argument. Applying Judge Posner's analysis in *Sterling*, competition in the interbrand market dictates a simple choice: Kodak may either price parts competitively and maintain its interbrand market share, or it may price parts supercompetitively — yielding a short-term gain but over the long term destroying its share of the interbrand market. In either case Kodak is not harming competition: if it adopts the latter strategy, competitive forces will exact a heavy toll in the interbrand market, and profits gained from the short-term parts mark-ups will quickly be eclipsed. The result would be "a brief perturbation in competitive conditions — not the sort of thing the antitrust laws do or should worry about." *Supra*, note 40 at 3646. The dissenting judge considered that the majority in *Image Technical Service, Inc.* had rejected this line of reasoning as too theoretical to serve as a basis for summary judgment.
- 47 Unlike the *Competition Act* the concept of refusal to supply in both U.S. law and EEC law operates within the framework of provisions preventing abuse of dominant position or monopolization and tied selling and other vertical restraints.
- 48 The term "efficiency" has (at least) two meanings in economic literature: (1) welfare benefits (the best allocation of resources in society as a whole); (2) cost minimization by a firm (see J. Tirole, *The Theory of Industrial Organization* (Cambridge, Mass.: MIT Press, 1988) at 16). In the present context "efficiency" is being used as synonymous with the cost-minimizing organization of economic

activity. Efficiency gains from vertical integration may arise for technological reasons or because of reduced transaction costs and reduced uncertainty.

49 *Supra*, note 27 at 12.

50 R.S.C. 1985, c. I-21.

51 The words "among suppliers" would have to be read out of the phrase altogether for it to continue to make grammatical sense in the singular.

52 Written argument of Xerox at paras 148, 150, 151, 160.

53 (U.K.), 30 & 31 Vict., c. 3.

54 (6 April 1990), Quebec 200-05-001361-877.

55 [1989] 1 S.C.R. 641.

56 R.S.C. 1970, c. C-23 as am. S.C. 1974-75-76, c. 76, s. 12. The same section, slightly modified, appears as section 36 of the *Competition Act*, R.S.C. 1985, c. C-34, as am. *Miscellaneous Statute Law Amendment Act, 1987*, R.S.C. 1985 (4th Supp.), c. 1, s. 11.

57 Initially set out in *A.G. Canada v. Canadian National Transportation, Ltd.*, [1983] 2 S.C.R. 206.

58 (1881), 7 App. Cas. 96 (P.C.)

59 Quoted in *General Motors of Canada Ltd. v. City National Leasing*, *supra*, note 55 at 656.

60 *Ibid.* at 660.

61 (1976), [1977] 2 S.C.R. 134.

62 *General Motors of Canada Ltd. v. City National Leasing*, *supra*, note 55 at 661. In *MacDonald v. Vapor Canada*, paragraph 7(e) of the *Trade Marks Act*, R.S.C. 1970, c. T-10 was found to be invalid federal legislation. That section was a general catch-all section which prohibited a person doing "any act" or adopting any "business practice contrary to honest industrial or commercial usage in Canada". It was not connected to a federal regulatory scheme relating to the general trade and commerce.

63 *Supra*, note 57.

64 *General Motors of Canada Ltd. v. City National Leasing*, *supra*, note 55 at 662.

65 See, e.g., *R. v. Hoffman-La Roche Ltd. (Nos. 1 & 2)* (1981), 33 O.R. (2d) 694, 125 D.L.R. (3d) 607 (Ont. C.A.) (predatory pricing offence could be supported under s. 91(2) as well as s. 91(27) and the residual power); *A.G. Canada v. Canadian National Transportation Ltd.*, *supra*, note 57 (the three judges of the Supreme Court who dealt with the issue would have supported the conspiracy provisions under s. 91(2)).

66 [1982] C.S. 342, (sub nom. *R. v. Miracle Mart Inc.*) 68 C.C.C. (2d) 242 (C.S. Que.) [translation].

67 (1984), 9 D.L.R. (4th) 600, (sub nom. *BBM Bureau of Measurement v. Director of Investigation and Research under the Combines Investigation Act*) 82 C.P.R. (2d) 60.

68 *Supra*, note 54.

69 *Supra*, note 55 at 676.

70 See Memorandum of law (constitutional issue) of the Director at para. 18:

The basic structure of the *Combines Act* referred to by Mr. Justice Dickson was kept intact in the amendments that created the *Competition Act* and *Competition Tribunal Act* in 1986. The major changes implemented in 1986 were:

- (i) insertion of a purpose clause (s. 1.1);
- (ii) provision for application of the Act to crown corporations (s. 2.1);
- (iii) revision of the investigatory powers of the Director to comply with the *Hunter v. Southam* decision and other considerations (ss. 11-20);
- (iv) addition of an offence concerning banking conspiracies (s. 49);
- (v) addition of the civilly reviewable abuse of dominance (s. 78-79) and merger provisions (s. 91-100), including special procedural remedies for mergers such as interim injunctions;
- (vi) addition of a scheme of merger prenotification (sections 108-124);
- (vii) abolition of the RTPC and its jurisdiction over research inquiries and "s. 18" inquiries and its replacement with the Competition Tribunal for adjudication of civilly reviewable matters, and the regular courts for adjudication of search warrants and other investigative applications.

71 *Supra*, note 55 at 670.

72 *Ibid.* at 667.

73 *Ibid.* at 668-69.

74 *Supra*, note 54.

75 (4 October 1990), CT-89/2, Reasons and Order (Competition Trib.).

Tab 2

1995 CarswellNat 2684
Competition Tribunal

Canada (Director of Investigation & Research) v. D & B Co. of Canada Ltd.

1995 CarswellNat 2684, [1995] C.C.T.D. No. 20, 24 B.L.R. (2d) 20, 64 C.P.R. (3d) 216

**Re s. 79 OF Competition Act, R.S.C. 1985, c. C-34; RE CERTAIN
PRACTICES BY D & B COMPANIES OF CANADA LTD.**

DIRECTOR of INVESTIGATION and RESEARCH (applicant) v. D & B
COMPANIES of CANADA LTD. (respondent), INFORMATION RESOURCES,
INC. CANADIAN COUNCIL of GROCERY DISTRIBUTORS (intervenor)

McKeown J. Presiding Judicial Member, Roseman and Clarke, Lay Members

Heard: October 17-21, 24-28, 31, November 1, 2, 4, 1994, April 3, 10-13, 18-21, 25-28, 1995

Judgment: August 30, 1995

Docket: Doc. CT - 94/1

Counsel: *Donald B. Houston* and *Bruce C. Caughill*, for applicant.

John F. Rook, Q.C., *Randal T. Hughes*, *Lawrence E. Ritchie* and *Karen B. Groulx*, for respondent.

Calvin S. Goldman, Q.C., *Gavin MacKenzie*, and *Geoffrey P. Cornish*, for intervenors Information Services Inc.

Paul Martin, for intervenor, Canadian Council of Grocery Distributors.

Subject: Intellectual Property; Corporate and Commercial; Property; Criminal

Table of Authorities

Cases considered:

(Canada (Director of Investigation & Research) v. Laidlaw Waste Systems Ltd. (1992), 40 C.P.R. (3d) 289 (Competition Trib.) — applied

Canada (Director of Investigation & Research) v. NutraSweet Co. (1990), 32 C.P.R. (3d) 1 (Competition Trib.) — applied

*Canada (Director of Investigation & Research) v. Southam Inc. (1992), 43 C.P.R. (3d) 161 (Competition Trib.) [additional reasons at (1993), 48 C.P.R. (3d) 224 (Competition Trib.), reversed in part 127 D.L.R. (4th) 263, 21 B.L.R. (2d) 1, 63 C.P.R. (3d) 1, [1995] 3 F.C. 557, (sub nom. *Director of Investigation & Research, Competition Act v. Southam Inc. (No. 1)*) 185 N.R. 321 (C.A.), leave to appeal to S.C.C. granted (1996), 130 D.L.R. (4th) vi (note), 64 C.P.R. (3d) vi (note) (S.C.C.)] — referred to*

R. v. Canadian General Electric Co. (1976), 15 O.R. (2d) 360, 29 C.P.R. (2d) 1, 34 C.C.C. (2d) 489, 75 D.L.R. (3d) 664 (H.C.) — considered

R. v. Eddy Match Co. (1953), 18 C.R. 357, 109 C.C.C. 1, 20 C.P.R. 107 (Que. C.A.) — considered

United States v. E.I. duPont de Nemours & Co., 351 U.S. 377 (1956) — referred to

Statutes considered:

Combines Investigation Act, The, R.S.C. 1970, c. C-23 [R.S.C. 1985, c. C-34] [renamed Competition Act by 1986, c. 26, s. 19] —

s. 2 "monopoly"

Competition Act, R.S.C. 1985, c. C-34 —

s. 78

s. 78(d)

s. 78(e) [en. R.S.C. 1985, c. 19 (2nd Supp.), s. 45]

s. 78(f)

s. 78(h) [en. R.S.C. 1985, c. 19 (2nd Supp.), s. 45]

s. 78(i)

s. 79

s. 79(1) [en. R.S.C. 1985, c. 19 (2nd Supp.), s. 45]

s. 79(1)(a) [en. R.S.C. 1985, c. 19 (2nd Supp.), s. 45]

s. 79(1)(b) [en. R.S.C. 1985, c. 19 (2nd Supp.), s. 45]

s. 79(1)(c) [en. R.S.C. 1985, c. 19 (2nd Supp.), s. 45]

s. 79(2)

s. 79(3)

Application for order under s. 79 of the *Competition Act* prohibiting certain contracting practices of the respondent alleged to be anti-competitive by having effect of substantially lessening or preventing competition in supply of scanner-based market tracking services in Canada, and for additional remedies to restore competition to market.

By the tribunal:**I. Introduction**

1 The applicant in this case is the Director of Investigation and Research ("Director"), the public official charged with enforcement of the *Competition Act*¹ ("Act"). The Director brings an application against the respondent, The D & B. Companies of Canada Ltd., under section 79 of the Act, commonly known as the abuse of dominant position section. The goal of the application is to obtain from the Tribunal an order that will prohibit certain contracting practices of the respondent which the Director alleges are anti-competitive and have the effect of substantially lessening or preventing competition in the supply of scanner-based market tracking services in Canada. The Director also seeks additional remedies to restore competition in the market.

2 The Director alleges that the respondent substantially or completely controls the supply of scanner-based market tracking services in Canada; that the supply of such services constitutes a distinct class or species of business; that the respondent has

engaged in and continues to engage in a practice of anti-competitive acts within the meaning of section 78 of the Act; and that such acts have the effect of preventing or lessening competition substantially in the supply of scanner-based market tracking services in Canada. The acts of the respondent which are alleged to constitute anti-competitive acts are signing exclusive contracts for scanner data with retailers, offering significant financial inducements for exclusive access, and entering into long-term contracts with manufacturers of consumer packaged goods for the sale of its scanner-based market tracking services.

3 The respondent, The D & B Companies of Canada Ltd., was formed in December 1991 by the amalgamation of the A.C. Nielsen Company of Canada Limited with Dun & Bradstreet Canada Limited and Media Measurement Services Inc. A.C. Nielsen had operated in Canada since 1944. Through a division called Nielsen Marketing Research, the respondent presently carries on the business operated by A.C. Nielsen prior to 1991. As the application is concerned with this division only, or ease of reference the respondent will also be referred to as "Nielsen" throughout these reasons. The respondent disputes each of the grounds of the Director's application. In particular, it alleges that the intervenor, Information Resources, Inc. ("IRI"), was the first company to attempt to introduce exclusive contracts with retailers for scanner data into the Canadian market. It further alleges that the Director has defined the market too narrowly and the market is either decision support services or market tracking services in general.

4 Two intervenors participated in these proceedings. The first, IRI, provides a scanner-based market tracking services in competition with Nielsen in the United States, where the two companies are fierce rivals. IRI submitted the complaint to the Director which prompted his investigation of Nielsen's practices. The second, the Canadian Council of Grocery Distributors ("CCGD") which represents the grocery retailers, supported the continued existence of exclusive contracts for scanner data with retailers.

5 This application is concerned with the field of marketing research as it relates to consumer packaged goods. Consumer packaged goods are products, food and non-food, which are packaged by the manufacturer for purchase by consumers. Marketing research is used by retailers and manufacturers to assist them in decision making and planning for the marketing and distribution of these products. There are a wide variety of marketing research services available, as diverse as the needs of the customers for those services.

6 In Canada, Nielsen offers the widest range of these services; other companies offer some but not all of them. The marketing research services relevant to this application are: market tracking services, household (or consumer) panels and key accounts. These services are described in detail below under the heading "*Class or Species of Business/Product Market*".

7 The issues in this case are dealt with under sections 78 and 79 of the Act and, in particular, the three paragraphs of subsection 79(1), which in turn we have broken down under various headings. For the sake of convenience, we are setting out the facts separately under each heading. Subsection 79(1) reads as follows:

Where, on application by the Director, the Tribunal finds that

- (a) one or more persons substantially or completely control, throughout Canada or any area thereof, a class or species of business,
- (b) that person or those persons have engaged in or are engaging in a practice of anti-competitive acts, and
- (c) the practice has had, is having or is likely to have the effect of preventing or lessening competition substantially in a market,

the Tribunal may make an order prohibiting all or any of those persons from engaging in that practice.

II. "Class or Species of Business": Law

8 A question of the legal interpretation of the words "class or species of business" in paragraph 79(1)(a) of the Act has arisen in this case. I propose to address the legal question first and then we will address the facts related to class or species of business or product market. However, it must be kept in mind that the facts and the law are inextricably linked.

9 Citing the Tribunal's decision in *Canada (Director of Investigation & Research) v. NutraSweet Co.*,² the Director argues that a "class or species of business" should be defined in the same manner as one would define a relevant product market, that is, in an economic sense. He submits that the Tribunal must decide whether there are other products which are close substitutes for scanner-based market tracking services and, if there are not, then scanner-based market tracking services are a product market and, therefore, a class or species of business within the meaning of section 79.

10 Nielsen submits that the words "class or species of business" cannot be treated as meaning "product market" because the word "market" was not used in paragraph 79(1)(a) and was employed in paragraph 79(1)(c). The respondent would define class or species of business as the "collection or grouping of all the elements that are necessary for the conduct or performance of the business of the respondent." The respondent does not go so far as to argue that within a company with numerous divisions potentially operating in vastly disparate industries, such as financial services and pharmaceuticals, all divisions should be included. The respondent restricted the class or species of business to that of a particular operating division. In the case at bar, Nielsen submits that the operating division, Nielsen Marketing Research, is in the business of providing decision support services and that is the relevant class or species of business. The respondent further argues that the Director must show that Nielsen controls *each and every* element of that class or species of business in order to meet the requirements of paragraph 79(1)(a).

11 It is important in interpreting legislation to keep in mind the purpose of the legislature. What then is the purpose of sections 78 and 79 of the Act? It is not controversial, and it was not disputed before me, that the sections are intended to deal with abuses by dominant firms. The government's explanatory guide neatly summarizes the role of the provision:

Anti-competitive behaviour on the part of dominant firms imposes artificial restraints on the competitive process, impeding the market from efficiently allocating resources. In a healthy, dynamic economy, goods and services are supplied by the firms which can produce them most efficiently and adapt to the ever-changing demands of the marketplace. The proposed abuse of dominance provision will ensure that dominant firms compete with other firms on merit, not through the abuse of their market power. The provision is of particular importance for the protection of consumers, new entrants and, in particular, the small business community.³

12 These sections were intended to rectify some of the problems which had made the previous criminal law offence of monopoly largely ineffective. These included the fact that there was nothing inherently criminal in the pursuit or maintenance of a monopoly, the high burden of proof required of the Crown to prosecute successfully in a criminal context, the focus of the section on "public detriment" rather than on the anti-competitive conduct and the lack of flexible remedies.

13 The three paragraphs of subsection 79(1) correspond to the three main elements required to be proven to show an anti-competitive abuse by a dominant firm. The Tribunal must first, assess dominance, second, identify a practice of anti-competitive acts and third, determine the effect of the practice in terms of competition in a market. All three elements must be proven before an order can issue.

14 To complete the analysis under paragraph (c), the Tribunal will have to define a "market", including both the product and geographic dimensions, and consider market power in its determination of whether there has been a substantial lessening of competition. Likewise, in examining an alleged practice of anti-competitive acts under paragraph (b), the Tribunal will have to consider what is the relevant market. Most of the anti-competitive acts listed in section 78 refer specifically to elimination of a competitor from or preventing expansion into a "market". Even where the word is not mentioned, the concept may have to be applied in order to determine whether the alleged anti-competitive acts are aimed at a competitor (paragraphs (d) and (i)) or to decide which "price levels" are relevant (paragraph (f)).

15 Keeping that background in mind, I will now turn to the interpretation advanced by the respondent. Counsel referred us to various dictionary definitions of the words "class" and "species". That taken from *The Shorter Oxford English Dictionary* is fairly representative of all the references, so I will set it out in full:

[Class:] ... A number of individuals (persons or things) possessing common attributes, and grouped together under a general or "class" name; a kind, sort, division. (Now the leading sense.)

[Species:] ... A class composed of individuals having some common qualities or characteristics, freq. as a subdivision of a larger class or genus A distinct class, sort, or kind, of something specifically mentioned or indicated.⁴

These definitions would lead one to surmise that the elements considered to be within a single class or species of business should have common characteristics. They do not, however, indicate any basis upon which the common characteristics should be assessed, nor did Nielsen advance one.

16 In this case, the respondent proposes that the class or species of business should include "all the elements that are necessary for the conduct or performance of the business of the respondent." As evidence of the appropriate class or species of business on the facts before us, counsel referred primarily to the 10-K filing of D & B with the Securities Exchange Commission in the United States which describes Nielsen Marketing Research as a participant in the "global consumer marketing information services market" which "supplies a wide range of services that help consumer-goods manufacturers screen, plan, test and evaluate their individual brands and marketing programs."⁵ Reference was also made to the 10-K and mission statement of IRI, which also offers a variety of related products and services.⁶ The testimony of manufacturers was also cited to show that they regard the term "information services" or "decision support services" as descriptive of the various products that they are purchasing, from market tracking services to new product testing to software, when taken together. Only market tracking services based on retailer scanner data are encompassed by the Director's definition of class or species of business.

17 It was not clear from the respondent's argument what makes the various elements of information services or decision-support services "necessary" to the whole, other than the mere fact that Nielsen chose to offer that combination of products and services. A member of the panel put to counsel that if all the elements of Nielsen's business are "necessary" parts of the class or species of business which he called "decision support services" then it would follow that if one of the elements was not available to competitors (for example, scanner-based market tracking services) Nielsen would, by definition, be the only firm in that class or species of business and thus control it.

18 Counsel responded that, in effect, Nielsen's competitors need not be in the same business as Nielsen. He submitted that it was not sufficient for the Director to show that Nielsen controlled the class or species of business as a whole but that he had to prove that Nielsen controlled each individual element of that business. Further, the presence of a competitor in any one element would negate Nielsen having control of the decision support services class of business even if Nielsen was the only firm carrying on that class of business as a whole. The logic of this argument escapes me. It seems contradictory to group together all the services provided by Nielsen to call it a "class or species of business", apparently on the basis that all the services are "necessary" to that business, and then require that control extend to each individual element. If all the elements are necessary, then on counsel's own definition, there is a single class or species which Nielsen must be shown to control. The individual elements of the group cease to have any relevance to the analysis. If control must extend to each element, then each element should, on the words of paragraph (a), be considered to be a "class or species of business" in and of itself. The gist of the respondent's argument appears to be that the respondent should be permitted to define the "class or species of business", over which it must be shown to have control for the application to succeed, without reference to any objective criteria.

19 A further question regarding the logical coherence of the proposed definition arises in connection with the Tribunal's determination in *NutraSweet* (which was also adopted in *Canada (Director of Investigation & Research) v. Laidlaw Waste Systems Ltd.*,⁷ another abuse of dominance case) that "control" as used in paragraph 79(1)(a) is synonymous with market power.⁸ This interpretation was apparently accepted by Nielsen and has been accepted in the literature. Yet it is difficult to talk about market power without reference to a market.

20 Moreover, not only is the respondent's proposal difficult to justify on its own merits, it also flies in the face of the logical application of competition law in general. I need only refer to the hypothetical regarding Imasco referred to by counsel.

Imasco operates in both the financial arena and in pharmaceuticals. The respondent would only go so far as to say that the financial segment is separate and distinct from the pharmaceutical aspect, in that the pharmaceutical business is not "necessary" in order to produce a product in the financial portion. If that is meant to imply that the entire pharmaceutical division would constitute a single "class or species of business", this would be an extraordinary result. Individual varieties of drugs have widely differing uses and there is not necessarily any logical relationship between them from the demand perspective. Enforcement of competition or antitrust law in numerous cases in North America and Europe has proceeded on the basis of individual drugs or classes of drugs identified as having similar characteristics, not against "pharmaceutical" businesses as such.

21 The Director emphasized that, in assessing whether there has been an abuse of dominant position under section 79, the Tribunal's object is not to identify all the different businesses that Nielsen carries on. He argues that the issue is rather whether scanner-based market tracking services are a well-defined product market. He submitted that Nielsen's definition focuses on the *business* that Nielsen carries on rather than a *class or species of* business, in the words of section 79.

22 I agree that the respondent cannot be the person who determines the class or species of business in a particular case. I also agree with the Director that if the class or species of business in this case is decision-support services, a whole gamut of products which are used for different purposes and which have a different function are included.

23 The Director relies on previous decisions of the Tribunal to argue that class or species of business and product market are synonymous and, thus, that the supply of scanner-based market tracking services in Canada can be a class or species of business. The most extensive discussion of the issue is in the Tribunal's decision in the first abuse of dominance case, *NutraSweet*. In defining the product market in that case, the Tribunal established a test of product substitutability:

The question is whether, and in what ways, other sweeteners are good substitutes for aspartame. In any given competition law case, a wide range of factors may be relevant in considering product substitutability.⁹

The Tribunal also stated:

It is the tribunal's view that it is necessary that the over-all purpose of a section be kept in mind when dealing with the elements which the legislative scheme requires to be specifically addressed. In approaching the discussion of product market, the tribunal has kept in mind the implications that its conclusions would have for its consideration of market power.¹⁰

24 The Tribunal then went on to discuss the interpretation of the words "class or species of business" in more detail. It is interesting to note that in that case, the parties took the opposite views to the positions of the parties in the present case.

In the Director's view, the "class or species of business" referred to in para. 79(1)(a) should be interpreted in a "commercial" sense rather than in the economic sense of a product market, and when a commercial interpretation is applied the class or species of business is the manufacture and supply of aspartame. The tribunal concurs with the opposing view of the respondent that "class or species of business" is synonymous with the relevant product market. This interpretation is consistent with the tribunal's view that the meaning of "control" is market power since this concept can only meaningfully be related to a product market. Nothing hangs on the distinction in the instant case since the tribunal considers the relevant product in Canada to be aspartame.¹¹

There was some debate before us as to whether the Tribunal actually determined the question of the interpretation of the words "class or species of business" in *NutraSweet*. In my view, the last sentence of the paragraph quoted above makes the Tribunal's findings on the meaning of the words "class or species of business" in paragraph 79(1)(a) *obiter*.

25 The Tribunal then analyzed *R. v. Eddy Match Co.*,¹² a case relied on by the Director in support of his position. Under the predecessor to the *Competition Act*, the *Combines Investigation Act*, Eddy Match Co. was charged with operating a combine, namely a merger, trust or monopoly, which controlled the business of manufacturing and distributing wooden matches. The Tribunal described the finding in that case regarding "class or species of business" as follows:

In identifying wooden matches as the relevant "class or species of business" the court did not consider it necessary to take into account other means of producing a flame as possible substitutes. The court recognized that "lighting devices" was a general class which could contain many types of business but held that "class or species of business" meant wooden matches since that was the only business of Eddy and the matches were distinct from the other lighting devices.¹³

The Tribunal distinguished the *Eddy Match* decision based on its facts and the different legislative schemes of the *Combines Investigation Act* and the *Competition Act*:

The court in that case was seized with charges under a criminal statute, a case in which the accused had engaged in highly aggressive conduct towards other producers of wooden matches; Eddy certainly acted as though wooden matches were sufficiently distinct so that it was worthwhile for it to concentrate its efforts on that industry. In the present statute, however, s. 79 provides other remedies and the deciding body is a specialized tribunal. It would run contrary to the spirit of this legislation for the tribunal to eschew other relevant factors (i.e., possible substitutes) on some presumed technical ground.¹⁴

26 The Tribunal went on to find that the product market should be identified under paragraph 79(1)(a):

Furthermore, the Director recognizes that the product market must be considered at some point in s. 79(1). In his view, the appropriate place to do so is in para. 79(1)(c) in reference to the substantial lessening of competition in "a market", which requires the identification of both the product and geographic dimensions. In the view of the tribunal, the logic of the section is better followed if the product market is precisely identified in connection with the question of "control" rather than being partially dealt with under para. 79(1)(a) and then revisited in para. 79(1)(c).¹⁵

27 In the second abuse of dominance case before the Tribunal, *Laidlaw*, there was no discussion as to the distinction, if any, between class or species of business and product market as the parties were in agreement on the relevant product market. In fact, the heading used in the reasons is "Class or Species of Business — Product Market". The Tribunal went on to say:

There is no dispute in this case as to the relevant product market. It is a specific category of waste collection and disposal service.¹⁶

28 I will now examine one additional case which may shed some light on the definition of "class or species of business". In *R. v. Canadian General Electric Co.*, the accused, three manufacturers of electric large lamps with 95 percent of the Canadian market, were charged under both the conspiracy and the monopoly provisions of the *Combines Investigation Act*.¹⁷ In his reasons regarding the conspiracy count, Pennell J. commenced by discussing the relevant market:

[I]n every adjudication under s. 32 of the Act there is an examination of two competitive features and these relate to (1) the market structure and (2) the behaviour or conduct of the participants, and in respect to both, the way in which the "relevant market" is defined is of the essence.¹⁸

He concluded:

In my view, it is clear that the relevant market for the distribution of large lamps was the geographical unit of Canada. The term "large lamps" was coined by the lamp industry to designate a specific segment of the lamp market. Large lamps were treated by each of the accused as a distinct segment of the industry for the purposes of manufacture and sale. They constituted a significant portion of the sales of all lamps in Canada during the period in question. Looked at from any angle, the manufacture or sale of large lamps may be said to constitute a class or species of business in itself.

Large lamps are basically homogeneous products. There was little product differentiation among the large lamps of the three defendants. The public purchasing large lamps would be faced with comparable lines from each of the accused with

the same physical characteristics and designed for the same use. The degree of substitutability or cross-elasticity is, for all practical purposes, non-existent.

The distribution of large lamps may therefore be considered a relevant market for the purpose of s. 32(1)(c) of the Act. It is a special class of business and is a distinguishable range of lamps within the total variety of lamps produced. The market has not been artificially created to suit the purposes of the present charges but flows from the nature of the product, its lack of cross-elasticity or substitutability with other products, and the treatment given the product through a special mode of distribution and a distinctive sales policy.¹⁹

29 Although Pennell J. was referring to the conspiracy provision, in which the words "class or species of business" do not appear, he may have had in mind the monopoly provisions in phrasing his reasons as he did. One can infer that Pennell J. used the same relevant market throughout the decision as he does not return to address the question again in the section headed "Monopoly" but rather proceeds to deal with other issues such as shared monopoly and detriment.²⁰ Pennell J. focuses on substitutability in defining the relevant market and also appears to use the terms "relevant market" and "class or species of business" interchangeably.

30 Having reviewed the caselaw, I am in agreement with the finding of the Tribunal in *NutraSweet* that when determining the "class or species of business" one must look at substitutability. There is also no doubt that "class or species" is intended to narrow the word "business". However, while I agree that the logic of the section is better followed when the product market is precisely identified in connection with the question of control, as stated above in the quotation from the decision in *NutraSweet*, I cannot agree that one can ignore the difference in the wording in paragraphs 79(1)(a) and 79(1)(c).

31 In my view, to address the issue of the different wording in paragraphs 79(1)(a) and 79(1)(c) and the reasons for the difference, it is necessary to look briefly at the legislative history of the Act. Although not binding or even, theoretically, admissible in construing a section of a statute, it may be instructive to refer to the legislative history of the particular provision.

32 The relevant portions of paragraphs (a) and (c) appeared in exactly the same form in the first reading of the bill which eventually became the new *Competition Act*. They were not amended in committee or in the House. One witness before the House committee considering Bill C-9 did refer to the difference in wording between paragraphs (a) and (c) in some detail. William Stanbury made the following submission on (then) section 51 of the Bill:

Now we come to the matter of defining the market. Paragraph 51.(1)(a) speaks of a "class or species of business". On the other hand paragraph 51.(1)(c) speaks of a "market". The problem is, are these the same terms, or just different terms for the same thing? I think we need to clarify them both; and I would argue that the phrase that should be substituted in both cases is "the relevant market."

I do not want to see a snare, trap, or delusion inserted in the bill merely by the failure to recognize the slight difference in the use of terminology in two different places in the same proposed section. I think that is a technical amendment everyone could support, and I think it would reduce a lot of bickering.²¹

Unfortunately, the Committee did not adopt Professor Stanbury's suggestion, at least to the extent of using the words "the relevant [product] market" in paragraph (a) instead of "class or species of business".

33 The wording in paragraph (a) was clearly adapted from the definition of "monopoly" in section 2 of the *Combines Investigation Act*.²² That definition read, "'monopoly' means a situation where one or more persons either substantially or completely control throughout Canada or any area thereof the class or species of business in which they are engaged ...". The government's guide to Bill C-91 confirms this in its description of the new abuse of dominance provision:

The elements to be proved are as follows. First, "one or more persons" must substantially or completely control a class or species of business in Canada or any area thereof. This is based on the definition of monopoly in the existing legislation. The Bill, by retaining the words "one or more", will continue to allow the application of the law to behaviour engaged in

by unaffiliated persons. This means that in some circumstances the section would apply to so-called "joint dominance" situations.²³

The latter comment, rather than the use of the words "class or species of business", was the subject of attention and debate before the committee.

34 The guide goes on to describe paragraph (c):

Third, the practice of anti-competitive acts must have had, be having or be likely to have the effect of preventing or lessening competition substantially in a market. This test is used elsewhere in the existing legislation and in the new merger proposal.²⁴

35 There has been some discussion in the literature regarding subsection 79(1) and the difference in wording in paragraphs 79(1)(a) and 79(1)(c). Some commentators attribute significance to the fact that the words used in paragraphs (a) and (c) are different; others endorse an approach which focuses on the relevant market and market power, similar to the approach taken by the Tribunal in *NutraSweet*. No one, however, provides a compelling reason for the difference in wording.

36 Although it was not argued before me, I have found that the discussion of the section by R.J. Roberts provides helpful insights into why paragraph (a) speaks of controlling a class or species of business in a part of or throughout Canada. In a 1991 article, Professor Roberts criticizes section 79 because, in his view, it only reaches firms which are dominant, or have market power, in Canada and cannot be used to reach a firm which, while dominant in the world market for a product, has a small market share in Canada.²⁵ He expresses concern that, for example, the Canadian statute cannot be used to stop an American firm that is dominant in the world market, but has a small Canadian market share, from taking anti-competitive action against a Canadian company in Europe. He believes this situation causes harmful effects in Canada because the Canadian company will be crippled and may even go bankrupt. Professor Roberts therefore advocates extending the reach of the Canadian abuse of dominance provisions to assert extraterritorial jurisdiction in cases in which the "foreign commerce of Canada" is adversely affected.²⁶ He recognizes that the existing provisions focus upon "defence of economic efficiency, and *ergo*, consumer welfare, in Canada."²⁷

37 In identifying that the abuse of dominance provisions, as written, do not appear to extend the Tribunal's jurisdiction beyond cases in which a firm is dominant in a market which is, or at least includes, some or all of Canada, Professor Roberts may have provided a possible explanation of the difference in wording. Geographic markets defined according to economic factors can be much larger than Canada. Based on the words of section 79 as drafted, Parliament was concerned about firms dominant in Canada and the effects of abuse of that dominance on Canadian consumers. If Parliament had simply referred in paragraph (a) to control of a market, "market" having both product and geographic dimensions, the section could apply to situations where there were no direct connection to Canadian consumers. It could have been used for aggressive, extraterritorial application to protect Canadian *firms* operating in other markets in which Canadian *consumers* do not buy the product.²⁸ Professor Roberts is, of course, suggesting that the section be amended to accomplish this very result. I am here concerned, however, with the current wording, not the merits of the proposed reform.

38 I conclude that the wording "class or species of business" is used in paragraph 79(1)(a) of the Act as an alternative to the word "market" because "market" has a geographic element to it and there is already a geographic element in paragraph 79(1)(a), being the phrase "throughout Canada or any area thereof", which was put in specifically to limit the application of the word "control" to Canada. I agree with the interpretation placed on paragraph 79(1)(a) by the Tribunal in both *NutraSweet* and *Laidlaw*, which the Director urges on this panel. Paragraph (a) specifically divides the two dimensions of a market: "class or species of business" refers to the relevant product market and "throughout Canada or any area thereof" to the relevant geographic market. Parliament has made clear that, although the section may from time to time address powerful international firms, for the section to apply they must have market power in parts of, or all of, Canada. I conclude that "class or species of business" is synonymous with the relevant product market and "control" is synonymous with market power.

III. "Class or Species of Business"/Product Market

A. Facts

(1) Market Tracking Services

39 Market tracking involves collecting data, over time, on product movement to produce an estimate of total market size and direction of growth for each product category being tracked and to indicate the relative performance or market share of a particular brand or item within the product category. Each different flavour, size or format within a brand is considered an item. As part of a market tracking service, data may also be collected on "causal" factors which explain the observed changes in product movement. Causal factors include price, promotions, feature advertising, in-store displays, etc. Market tracking enables manufacturers and retailers to plan more effectively the marketing and merchandising of their products based on previous trends.

40 Because patterns of distribution for product categories vary widely, a market tracking service may be tailored to appeal to certain types of manufacturers by focusing on different channels of distribution. For example, a grocery product tracking service will cover those channels where food products are generally sold while a health and beauty care service will include a different mix of retail outlets.

41 Several methods can and have been used to collect the necessary data for a market tracking service. The original method of data collection was the store audit. The Nielsen Food Index ("NFI"), the Nielsen Drug Index ("NDI") and the Nielsen Mass Merchandiser Index ("NMMI") were traditional store audit-based services. Each of the NDI, NFI and NMMI was based on a sample of stores whose data were projected to represent the relevant population. As the names imply, the NFI sample was drawn from food stores, the NDI sample from drug stores and the NMMI sample from a population limited to the three dominant mass merchandisers, namely K mart, Woolco and Zellers.

42 Data were collected from each of the sample stores by Nielsen's field auditors who visited the prescribed stores every 60 days. They took an opening inventory at the beginning of the period and a closing inventory 60 days later. They obtained information on the store's purchases during the 60-day period and by combining that number with the inventory observations, arrived at a figure for sales for that store during the period. During the store visit, the auditors also collected in-store "causal data", including the shelf prices for the various products on the day of their visit, any in-store displays, stock outages and any promotional material in the store.

43 Reports for NFI, NDI, and NMMI were generated and provided to customers bi-monthly (six times a year). The reports presented data on market volume and market share and the various causal factors. The data were presented for the national level and were also broken down by regions of the country.

44 Nielsen was the only company offering retail audit-based tracking services in Canada except for a local Canadian company which was active in the early to mid-1980s. That company offered an audit-based tracking service primarily directed at the manufacturers of confectionery and tobacco products.

45 A second, more recent, method of data collection is based on warehouse shipments, also called warehouse withdrawals. In 1981, Nielsen launched the Nielsen Warehouse Shipment Service ("NWSS"). Data on shipments from the warehouses of a co-operating organization to its stores are recorded electronically at the warehouse and provided to Nielsen. To obtain relevant price data under this method, which focuses on shipments to retail stores rather than sales, Nielsen uses a suggested retail price from the manufacturer of the product. No other causal data are included. NWSS data are reported for four-week periods at the item level on both a national and regional basis.

46 In 1989, Nielsen upgraded NWSS to NWSS Plus, in an effort to appeal to the marketing departments of customers as well as their sales forces. NWSS Plus includes some basic causal data and tables, graphs and charts.

47 A U.S. company called SAMI apparently attempted to enter the Canadian market to offer a warehouse shipment-based service in the late 1970s or early 1980s. There was some disagreement between the witnesses as to whether this company actually produced any reports for the Canadian market. There was, however, no question that if SAMI ever was truly in business

in Canada, it was not operational for long. Apart from this incident, Nielsen has been the sole provider of warehouse shipment-based services in Canada since 1981.

48 A third data source for a market tracking service is scanner data. Scanner data are generated when a product is scanned at the retail check-out counter instead of being processed by manual entry into the cash register. Consumer packaged goods have a bar-coded label, the Universal Product Code ("UPC"), affixed on them by the manufacturer. The UPC contains product-identifying information which can be scanned electronically. Additional data input by the retailer, such as store identification, price and time of purchase, are also recorded when the product is scanned. Retailers install scanners and collect scanner data for internal management purposes. The cost to them of supplying the scanner data to Nielsen is not much more than the cost of copying it.

49 In 1988, Nielsen introduced a limited market tracking service using scanner data from a sample of grocery stores in Ontario only (Ontario Scan Track). It was not a success in terms of sales and was eventually discontinued in 1992. In 1989, Nielsen began selling the Nielsen Grocery Index ("NGI"), an integrated grocery tracking service based on a combination of store audit and scanner data. With some exceptions for categories where NGI did not produce useable data, NGI replaced NFI "across the board"; manufacturers were not given the choice of remaining with the audit-based NFI. In addition to covering traditional grocery outlets using either scanner or audit data, NGI included scanner data from a sample of "superstores" or very large grocery stores which had been excluded from NFI because of the difficulty and expense of auditing them. Because the audit data provided a lowest common denominator, NGI was also a bi-monthly product. Despite the dual nature of the underlying data, the NGI reports were similar in appearance to the prior NFI reports.

50 In July 1992, Nielsen launched the MarketTrack Grocery service to replace NGI as its primary grocery product tracking service. MarketTrack Grocery is primarily based on scanner data although the scanner content of the service does vary with the particular distribution channel being tracked.

51 MarketTrack Grocery tracks grocery and related product categories in three channels. The first is "grocery supermarket banners" and includes chains (four or more stores under common ownership) and extra large independent stores with over \$150 million per year in sales. This group includes the major grocery retailers across the country. Grocery supermarket banners are the largest component of MarketTrack Grocery and, in 1994, represented about 85 percent of the grocery universe tracked by the service. The overwhelming majority of the stores in this category provide scanner data.²⁹

52 To get data from the non-scanning stores in this channel, Nielsen uses "manual" data collection. "Manual" data collection involves combining purchase information obtained by Nielsen from individual stores with warehouse shipment information that Nielsen already collects for the organization. Although this method of data collection was sometimes described in the evidence as an "audit", it should not be confused with the traditional audit method which involved 60-day inventory counts. Under the manual method, price information is obtained from a variety of sources within the Nielsen organization since purchases are not a good source of retail price. The prices used tend to be average prices.

53 The second channel included in the MarketTrack Grocery service is "remaining grocery". This group comprises independent food stores of all sizes and convenience food stores. The third channel is "defined non-grocery". This group includes stores other than grocery or food stores which also carry "grocery" products, for example, drug stores, mass merchandisers and department stores. The data collected for these categories are generally not scanner data but rather are based on warehouse shipments or purchase information. The second and third categories together make up about 15 percent of the grocery universe covered by MarketTrack Grocery.

54 MarketTrack Grocery reports provide data on a four-weekly basis. The service is available on a national level and for the regions of British Columbia, Alberta, Manitoba and Saskatchewan, Ontario, Quebec and the Maritimes. Ontario is further divided into Metropolitan Toronto and the rest of the province. Montreal is similarly divided from the rest of Quebec.

55 In late 1993, Nielsen replaced the NDI, Nielsen Food Index — Collateral ("NFIC")³⁰ and NMMI, all completely audit-based, with the MarketTrack Personal Care and MarketTrack Health Care services. MarketTrack Confectionary, MarketTrack

Tobacco and MarketTrack Snack Food were also introduced in 1993 to replace the Nielsen Confectionary and Tobacco Index, another traditional audit-based service. Each "MarketTrack" service is based on a different combination of scanner, audit and warehouse shipment data depending on the availability of scanner data for the particular channel of distribution being tracked. MarketTrack Grocery has the highest component of scanner data at about 80 percent.³¹

56 Reports based on household panel data, produced by one other company in Canada, are also used to a very limited extent by some companies for market tracking purposes but are more appropriately dealt with under household panels.

(2) Household (or Consumer) Panels

57 A household panel, also called a consumer panel, is a sample of households across the country that routinely record information about their purchases. The panel is selected to be representative of the various regions or the country as a whole or both so that the recorded data on purchases can be projected to a larger consumer universe. Both Nielsen and ISL International Surveys Ltd. ("ISL") have offered services based on the household panel concept for some time in Canada.

58 Nielsen originally offered a service called the Nielsen Electronic Diary Service ("NEDS"). NEDS was based on a panel of 6,000 households, 2,000 in each of Montreal, Toronto and Calgary. The NEDS panels in each city were selected to match the demographics of that city but were not truly representative as participants tended to be clustered in certain areas. The NEDS panel results could not be projected to a larger market. Data were collected for the NEDS service from specific grocery supermarkets using an identification card methodology. At the check-out counter, the household member would present the card to the clerk who would scan the identification number prior to scanning the purchases. The consumer purchase information would later be transmitted to Nielsen by the store.

59 Nielsen launched a new consumer panel service, HomeScan, in late July 1994; the first report for the new service was produced in mid-October 1994. HomeScan replaced NEDS. This service is of particular interest because it represents the most up-to-date method of collecting consumer panel data.

60 Data for the HomeScan service are collected from a panel of 7,250 households across Canada. Of the total 7,250 households in the panel, only 6,000 are included in the "static" panel. The static panel represents the households that have participated in the panel for a certain minimum time.

61 Household demographic information is maintained in the HomeScan data base. In order to collect data on purchases, HomeScan panel members use a hand-held home-scanning unit. Upon arriving home with the purchases, the panel member must first enter the store name. Various store names and locations are pre-programmed into the unit to make this step simpler. Then, the panel member must indicate who in the household did the shopping on that trip and whether more than one person went. The bar code on the item must then be scanned. The unit will then ask the panel member to enter the price of the item if necessary. This step is unnecessary if the item was purchased at a retailer that already provides its scanner data directly to Nielsen for MarketTrack. In that case, the price information will be provided from the MarketTrack price files. The unit then asks how many of the scanned item were bought. Finally, it prompts the panel member to indicate whether the purchase was made on some kind of "deal", such as a manufacturer or store coupon and store or other sale. Once all purchases have been entered, the panel member indicates the total amount spent on the shopping trip. The average time spent per week in scanning purchases is about 30 minutes per household. Once a week, the panel members must transmit the information that they have scanned into their unit to Nielsen. This is done over the telephone lines and generally takes between 30 seconds and a minute to transmit.

62 Although the panel members transmit information weekly, Nielsen "rolls up" or aggregates the data for a four-week period to produce a monthly report. The report is available for distribution approximately 21 days after the close of the four-week period.

63 The HomeScan service offers a variety of analytical modules.³² The base package for HomeScan contains modules providing data on category and brand penetration rates, buying rates and levels, purchase frequency, demographic profiles of buyers, and loyalty/switching. These are consumer diagnostic services which allow the client to analyze consumer purchase

behaviour in order to explain changes in its market share or volume. Other analytical modules designed to explain consumer behaviour are also available (for example, heavy/medium/light buyers, new product tracking, demographic segmentations, channel importance review, cross purchasing analysis, etc.).

64 HomeScan can provide basic tracking data in the form of volume and market share data for four-week intervals back to July 1994. HomeScan can also supply information on the relative importance of the various distribution channels (grocery, drug, mass merchandiser, warehouse) by product category or by brand. HomeScan data can also be used to determine if a retailer's share of volume for a product category is better or worse than its share of total volume. HomeScan data are available for various regional breaks, as with other Nielsen services, and for city splits for Montreal, Toronto and Vancouver.

65 ISL's Consumer Panel of Canada ("CPC") is a household panel with a net reporting sample of 4,500 households. Household participants in the CPC, however, record their purchases in a handwritten diary. The diary is pre-divided into produce categories, those categories that ILS is interested in for the purposes of selling its services to manufacturers. The majority of these categories are consumer packaged goods. The households record their purchases under the appropriate category and add details for each purchase, including, for example, brand, price, and location where they bought the product. The households provide their diaries monthly to ISL and the data are then added to the data base, which also contains a regularly updated record of the characteristics (or demographics) of the individual households. ISL uses the data base to provide reports to its various clients.

66 The first type of report is the CPC report. This report focuses on consumer diagnostics. These include demographics, brand switching, repeat buying, brand loyalty, household penetration by a brand, etc. A typical report also provides some market share information at the national level,³³ such as share of market for each branch and various package sizes within a brand, volume sold by brand and package size, and share of market by dollars.³⁴ Information on average prices by manufacturer, brand and package size is also included. All data are presented on a monthly basis, for the current month of the report and the twelve previous months.

67 The second type of report produced by ISL from its CPC data base is called TradeTrack. Terrence Rawlings, President and Chief Executive Officer of ISL, described TradeTrack as follows:

The key difference between TradeTrack and what we call the consumer panel data is that on TradeTrack we are reporting or providing information on retailers, not brands, and there's two levels of that information. It can be looking at what we call all-commodity, the performance of the retailers, how big they are, how their shares are trending, retailers at an all-commodity level or it could be doing the same thing for a specific category, but it wouldn't look at brands. ... The TradeTrack type of reports dealing with retailer performance is what the sales departments [of manufacturers] and the retailers would typically look at.³⁵

TradeTrack also reports on "outlet penetration" by retailers. It indicates the percentage of households that have bought one or more of the 69 product categories in the individual chain or the outlet type. TradeTrack presents data on a monthly or a quarterly basis and year to year comparisons are also possible.

(3) Key Accounts

68 Key account data are retailer-specific tracking data. That is, if a manufacturer wishes to know how its products are performing in, for example, Provigo grocery stores in Quebec, then it can buy Provigo-specific tracking data. As key account data are product movement data, they will be scanner, consumer panel, warehouse shipment, or audit-based depending on the collection methodology used in the related tracking service.

69 The description of key account service in a recent Nielsen service request runs as follows:

Each Nielsen Key Account Report will provide a comparison of all store product movement within a specified Nielsen territory or territories to product movement of the Key Account retailer. Total market data (as opposed to Key Account

specific data) will be incorporated with Key Account reports provided that the Client is purchasing total market data through subscriptions to a Nielsen base service (e.g., MarketTrack).³⁶

Thus, in a Nielsen report, the Provigo-specific information is presented along with the product movement information for all Quebec grocery supermarket banners for comparison purposes. Total market data are available if the manufacturer is also purchasing the broader MarketTrack service.

70 Up until 1990, ISL's consumer panel data were the only source of retailer-specific data in Canada as retailers did not release their own data. Since Nielsen did not have a nationally representative consumer panel at that time, it was unable to provide key account information. From 1991 on, retailers have permitted the release of their data to Nielsen and Nielsen presently provides a key account service based on the data acquired directly from the retailers. ISL still provides retailer-specific information based on its panel data only.

71 Retailers vary in their willingness to allow Nielsen to sell their key account data to manufacturers. Some do so readily and may, in fact, insist on the manufacturer having key account data so that the manufacturer and the retailer are using common data in their negotiations. Others are more reluctant. The retailer may have concerns about the confidentiality of the information, loss of bargaining power vis-à-vis the manufacturer or, in cases where the retailer is involved in private labels, unwillingness to provide this type of information to a competitor. During the testimony of the various witnesses, Loblaws, which markets a number of private labels, was frequently mentioned as a retailer that places restrictions on the release of its key account data by Nielsen.

B. Analysis and Conclusions

72 As is often true, the parties are divided on the breadth of the relevant product market. The applicant is of the view that the market in question is scanner-based market tracking services. The respondent's position is that the relevant product market is all market tracking services, which include market tracking services based on scanner, audit, warehouse withdrawal and consumer panel data.

73 Before embarking on the detailed analysis, it is convenient to deal in a preliminary fashion with one of the points raised by the respondent. Nielsen submits that the product market cannot be scanner-based market tracking services because Nielsen does not currently supply a tracking service that is based solely on scanner data in Canada. The ordinary meaning of the word "based" or "base" does not convey any sense of exclusivity.³⁷ A "scanner-based" market tracking service need not be composed only of scanner data if scanner data are the main or most important component. Nielsen itself described MarketTrack³⁸ to trade in its product glossary as a "[s]canner based tracking service which provides detailed sales and causal information".³⁹

74 It should also be noted that the application alleges that Nielsen controls the supply of scanner-based market tracking services. The Director alleges that Nielsen controls the key input into providing a scanner-based service. If the Director demonstrated satisfactorily that other suppliers were precluded from offering the service in question by Nielsen's control of the key input, with a resultant substantial lessening of competition, Nielsen could not escape the effects of the section simply by arguing that it was not itself producing a wholly scanner-based market tracking service. In determining whether the product market is scanner-based market tracking services, it is irrelevant whether at the time the Director commenced the application he believed that Nielsen supplied a tracking service in Canada based solely on scanner data.

75 The standard test for establishing whether products that are differentiated in one or more ways are close substitutes and therefore in the same product market is to determine whether small changes in relative price would cause buyers to switch from one product to another. Direct evidence of switching behaviour in response to small changes in relative price would provide proof of substitutability. Where price and quantity changes are not in evidence, as is true in the instant case, it is necessary to answer the question less directly by examining the evidence of both buyers and suppliers regarding the characteristics, the intended use and the price of the various types of market tracking services. As noted in *NutraSweet*,⁴⁰ the characteristics to be examined in establishing whether products are close substitutes will vary from case to case. In the instant case, the

evidence focussed on the timeliness, detail, accuracy, reliability and cost of collection of the data and the extent to which product movement data can be combined with causal data. These product characteristics are addressed in relation to each of the possible alternative data sources.

76 We examine first whether audit- and warehouse shipment-based market tracking services are close substitutes for scanner-based market tracking services and must therefore be included in the product market. The industry participants who testified before us, both purchasers and suppliers of the services, were of the common view that, where available, scanner data are undoubtedly superior to audit and warehouse shipment data and are the best source of data for tracking purposes. The witnesses included representatives of various consumer packaged goods manufacturers representing a variety of product types,⁴¹ as well as representatives from both IRI and Nielsen. All the Director's witnesses, except one who was not asked about it, made comments to this effect, emphasizing the timing and detail of scanner data, their link to purchases rather than shipments and their close correlation with causal data. Of the respondent's witnesses, one, in the confectionery business, expressed some preference for some of the features associated with audits⁴² when discussing Nielsen's change to scanner data for part of NFIC and the other was not asked about it.

77 Their evidence indicates that scanner data are superior to either audit or warehouse shipment data for several reasons. Scanner data are highly accurate. They are available quickly. They record consumer purchases directly rather than recording a surrogate of shipments to stores. They record actual retail prices by transaction. They track product movement out of the stores for frequent time periods (a week or possibly less). Scanner data also provide detail on each product down to the item level (for example, size and flavour).

78 The evidence of the buyers of the services highlights that a critical aspect of whether market tracking services based on other data are substitutes for market tracking services based on scanner data from retailers is the integration of causal data with data on consumer purchases. Retail promotion efforts generally last for a week at most. Since scanner-based market tracking services can provide weekly data on actual purchases, this allows a better correlation with the results of weekly marketing initiatives by manufacturers and retailers. Marketing initiatives may take the form of, for example, price reductions, coupons, end-of-aisle displays or advertising. These causal variables can be related to the scanner-measured sales on a weekly basis to determine their relative success. Although price may be recorded on the scanning tape at the checkout, most of the other causal data must be collected by in-store observation. As is apparent from the various contracts that were entered into evidence, the causal data are integrated into the data base and reported as part of Nielsen's MarketTrack service. In a recent manufacturer contract, in Appendix II, which contains a description of MarketTrack Grocery, under the heading "Reported Data Types" various causal variables are listed, including regular price, reduced price, reduced price distribution, reduced price sales, co-op ads by size of ad, retail displays by size of display, media advertising and co-op ad distribution.⁴³ A footnote indicates that the first six data types listed, all key causal variables, are reported for the supermarket grocery channel only, the only channel providing primarily scanner data. Thus, in addition to the superior tracking ability that retail scanner data allow, buyers regard the services based on this source of data as superior because they integrate causal data much more successfully than services based on other data sources.

79 The only witness who disputed the superiority of scanner data for determining the effects of retail promotional efforts was the respondent's expert witness, Margaret Guerin-Calvert, an economist, who based her opinion on erroneous information regarding the types of causal information included in products derived from consumer panels. Ms. Guerin-Calvert asserted that ISL's TradeTrack service included a full range of causal variables, like pricing, discounts and in-store displays, and that information on these factors was collected not just from the panel diaries but from other sources. However, as Mr. Rawlings of ISL had already testified, there is no retail promotion information contained in the TradeTrack service, which does not even track individual brands but rather product categories or total volume by retailer. The CPC reports contain some limited promotional information, whether the purchase was on a "deal" or a "coupon".

80 As Mr. Rawlings said during examination in chief:

Q. Does the TradeTrack service that we have just been through, do you have ability through that to provide information on promotional activities or other activities carried on at the retail level?

A. No, we don't.⁴⁴

And as he confirmed on cross-examination:

A. We cannot identify the specific promotion within a retail[er]. Consumers can tell us whether they brought something on deal, but we wouldn't know any retail specifics underlying that.

.....

A. What consumers can tell us is whether they perceive their purchase to have been bought "on deal", which might be a coupon, it might be a trade deal, it might be all kinds of things, but it is the consumer's perception of why or whether that purchase was "on deal" with a special offer of some kind.

.....

Q. And is that information included in the TradeTrack report, or is that in Consumer Panel of Canada, or is that in another ISL service?

A. Certainly within the Consumer Panel of Canada reports. I am not sure whether the retailers would use that or not, I doubt it.

Q. So is the TradeTrack report primarily for retailers?

A. It is for retailers and the sales departments within manufacturers.⁴⁵

81 The CPC reports do provide some pricing information but in the form of average prices only. While ISL offers a "price service" which provides details of the prices charged by retailers for grocery products based on price files from retailers, that pricing information cannot be integrated with the CPC data. As Mr. Rawlings stated, for insight into the success of retail promotion efforts, MarketTrack is the appropriate source, not the consumer panel which provides a different type of insight.⁴⁶

82 Most importantly, both Derek Nelson, Vice-President and Product Development Manager for Nielsen Canada, and Albert Kretch, a retired senior officer of Nielsen with experience in Canada, the United States and elsewhere, agreed that scanner data are generally preferable to the other two data sources. Mr. Nelson stated that:

Some of the things scanning brings to a customer is that it's a weekly database, so it starts on a Sunday and ends on a Saturday, as opposed to an audit methodology, which can start and stop at staggered times throughout the bimonthly period.

So it's discrete time-frames, it's a weekly database. You can go down to a far more collapsed time frame than 60 days.

It tends to be, certainly in today's environment, better and more accurate than audit data because there are fewer opportunities for human error in terms of going through purchases and collecting the data and so on.

Although the time-frames are fairly discrete for warehouse shipment, sales generally are preferred over overall shipment data.⁴⁷

Mr. Kretch confirmed that:

When all things are equal, the sample sizes, the participation of retailers, the integrity of the quality of data being sourced from the retailer, scanning data is preferred over audit data by the customers when all things are equal because the scanning data can, in a more cost-effective way, measure the promotion time interval of a retailer which, in Canada, is typically one week.⁴⁸

83 This has clearly been Nielsen's position for some time. A Nielsen internal document detailing a "scanning update" presentation confirms that certainly by 1987 the company was fully aware of the benefits of scanner data. The document refers to a 1986 survey which rated scanning as the "most reliable data collection technology", a rating which was verified by all Nielsen international studies.⁴⁹

84 In keeping with this widely-held opinion, Nielsen's objective, as set out in internal documents and reflected in the history of its product offerings, was to replace audit and warehouse shipment data with scanner data as scanner data became available. During examination for discovery, Nielsen's representative asserted that he was not aware of any occasion on which Nielsen had relied on either audit or warehouse withdrawal data where scanner data were available and useable.⁵⁰

85 The evolution of data collection methodology from audit and warehouse withdrawal to scanner data also occurred in the United States. The uncontradicted evidence of Gian Fulgoni, Chairman and Chief Executive Officer of IRI, reveals that audit and warehouse withdrawal data have been almost completely displaced by scanner data in that country. In 1986, when IRI launched the first scanner-based market tracking service in the United States, Nielsen provided an audit-based tracking service and SAMI offered a warehouse withdrawal-based service. By 1990, SAMI was out of business. Today, there are only scanner-based services offered for the supermarket channel. In the drug channel, both IRI and Nielsen have moved to scanner-based services. IRI still offers a health and beauty care tracking service based on warehouse withdrawals but its business is gradually being "cannibalized" by the two scanner-based services and is declining at a rate of about 10 percent per year.

86 No evidence on the relative prices of an audit-based market tracking service and a scanner-based market tracking service was brought to our attention. We did note from the evidence of Linda Todd of Nestlé, whose firm buys Nielsen's NWSS service for one of its products, that NWSS is considerably cheaper than MarketTrack. Ms. Todd buys NWSS even though it is not the most "up-to-date" service because it is cheaper and the product in question is under extreme profit pressure.

87 The respondent's position with respect to the place of audit- and warehouse shipment-based services in the market definition is not clear. In its written outline of closing argument, the respondent claims generally that "both scanner and non-scanner data methodologies are utilized for tracking purposes and may be viewed as substitutes". The substitutability of audit and warehouse shipment data for scanner data was not, however, pressed in oral argument. The argument was, rather, that these data methods could have been employed by would-be entrants to produce a market tracking service in channels of distribution where scanner data were and are not widespread. In adopting this approach the respondent appears to *assume* a conclusion regarding the relevant product market, and is, that audit, warehouse withdrawal and scanner-based market tracking services *are* in the same market, and then proceeds to apply it to the other elements of the section that are in issue. Absent any convincing evidence that audit- and warehouse shipment-based services are considered substitutes for scanner-based market tracking services, however, whether or not the former methods were and are open to potential competition is irrelevant for the purpose of market definition.

88 The other data source that is used to provide tracking information is consumer panel data. We are of the view that these data are sufficiently inferior to and different from scanner data for purposes of a market tracking service that the products based on panel data are not in the same market as those based on scanner data. One fact on which we rely for the conclusion that scanner data are superior to all other data sources (including audit and warehouse withdrawal) is the large payments that Nielsen made to retailers over the years since 1986 for scanner data. We note that the level of payments continues and has been increased even though Nielsen recently launched its own state-of-the-art consumer panel service, HomeScan. Nielsen's willingness to make large payments for the exclusive use of scanner data when it is also producing a product based on data that it argues are a close substitute for scanner data appears illogical and raises considerable doubt as to the substitutability of the two data sources. The remainder of the evidence confirms that, indeed, they are not close substitutes.

89 While both ISL's CPC report and Nielsen's HomeScan are capable of providing some tracking information, in the form of market share and volume data, it is clear from the evidence regarding sample size that for tracking purposes the scanner data are superior. The consumer panel used for HomeScan, for example, covers roughly 6,000 households. The sample of 450-odd grocery stores used by Nielsen in creating MarketTrack tracks the purchases of about two million households. For some purposes, such as opinion polls, a sample of 6,000 might produce powerful results. However, in the tracking of consumer

products there are many brands of products that can be tracked and within each product line further details like flavour and package size are of interest to the manufacturers.

90 The limitations created by the size of a consumer panel are reflected first in the number of products that the service provider chooses to track. With its consumer panel, ISL does not attempt to cover all grocery purchases by the household panels. Mr. Rawlings indicated that the dairy contains about 100 product categories which represent perhaps 25 percent of all grocery purchases by the consumers. Within those categories, the panel members are expected to record every purchase that they make; purchases which fall outside the defined categories are not tracked at all. While he did not know how many product categories were included in MarketTrack, Mr. Rawlings thought that it might be a "multiple number bigger" than the number included in the CPC.

91 Second, the size of the panel means that not all variables of interest can viably be tracked in combination based on data from the consumer panel sample. While ISL can provide tracking data on a national basis down to a particular package size for a particular brand, it cannot track to that level of detail by region and by retailer also, for example. When reviewing with respondent's counsel one of the tables in the CPC report entered in evidence⁵¹ which provides market share information by brand, package size and month, Mr. Rawlings was adamant that ISL could not provide the data by brand, package size, month *and* retailer. He said that he would "never provide that information" as it "wouldn't stand up".⁵² ISL's TradeTrack service presents the volume of sales through a particular retailer by broad product category only, not even by brand. No such limitations are present for scanner data.

92 Similarly, Mr. Rawlings described the limitation on the level of detail possible for retailer-specific, or key account, data sourced from the CPC:

Q. The level of detail and accuracy that you get from that source of information, how does that compare with information from the scanner records of the actual retailer?

A. From the Panel we cannot provide weekly data, we are talking about monthly data. In addition, we would not certainly within account report below the level of total brands, so when you want to look at the individual line of flavour by size we would not go down that far.

Q. Why wouldn't you go down that far?

A. Because the sample size that we have would not be big enough. Plus the method of data collection, data consumer information at that level of detail would be far less accurate than retail scanning.⁵³

Scanner-based retailer-specific information (and comparative information) is available down to the item level.

93 Another significant limitation on the consumer panel data is that it is reported for an aggregate four-week period, both for all the ISL services and HomeScan, as compared to the weekly scanner data. As discussed above, timing has significant implications for the integration of causal variables into a tracking service.

94 Thus, from the perspective of functionality, the consumer panel data appear to be inferior. Notwithstanding that inferiority, do buyers of market tracking services regard a tracking service based on these data as an alternative or a substitute to a scanner-based market tracking service? Nielsen offers both a scanner-based tracking service, MarketTrack, and a consumer panel-based service, HomeScan, which is capable of providing tracking information. If a consumer packaged goods manufacturer buys the HomeScan service, and regards its tracking information as a substitute for MarketTrack, then one would not expect that manufacturer to continue buying both services. Yet, the evidence of Douglas Romain, the Nielsen employee in charge of HomeScan, was that the majority of the 25 HomeScan customers also purchase MarketTrack *for the same product categories*. He could only point to a single manufacturer client who had switched from MarketTrack to HomeScan and it is significant that the manufacturer in question distributes its products largely through drug channels where scanner data are not yet widely available.

95 Mr. Rawlings estimated that 60 to 70 percent of ISL's revenue base is comprised of customers who buy MarketTrack data from Nielsen as well as CPC data from ISL. The fact that customers are buying both assures us that they do not regard the market tracking component of HomeScan or the CPC data as a substitute for a scanner-based market tracking service like MarketTrack and, in fact, buy the consumer panel-based service for a different purpose altogether.

96 Speaking specifically about key account data, which he buys both from Nielsen (scanner-based) and from ISL (consumer panel-based), Charles Oliver of Lever explained:

Our Key Account people, a large portion of their job is analyzing data from — I should mention from both Nielsen and from ISL because the ISL data you can analyze Key Account data out of ISL on a different basis, it gives you different types of information. Historically, retailers have only been focused on their own scanning information because it is what they are comfortable with. I think as they have become more attuned and more familiar with panel data because it gives them a different aspect to their business, they've become more interested in receiving a broader range of information.

So, Key Account people use both sets of data.⁵⁴

97 The evidence of the manufacturers who testified before us was that they buy the services provided by the ISL CPC report, and now HomeScan, primarily for the information that they can provide on consumer diagnostics. As suppliers of consumer packaged goods, they are interested in facts such as the demographic profile of their customers, purchase frequency and volume, brand loyalty and switching, and whether consumers make repeat purchases of a new product.

98 With respect to ISL's TradeTrack, the evidence is that it is used to track retailer performance across the 69 product categories that are covered. As Mr. Rawlings stated, it is directed at the retailers themselves and the sales departments of manufacturers. Manufacturers' marketing departments would not be as interested as TradeTrack does not track brands. The description of the service in the TradeTrack report is informative:

This report enables a marketer to see the retail outlet profile for any of the 69 specific product categories and how the profiles for those specific categories differ from the total all commodity.

For example —

Is chain "R" in Ontario under-developed within product "Y"? Are non-grocery outlets growing in importance to product "F" at the same rate as they are to the total all commodity?⁵⁵

Of the manufacturer witnesses, Jeffrey Hill of Coca Cola Foods provided the most extensive commentary on why he uses TradeTrack:

At this time, we use ISL to track customer [retailer] market shares and not market sizes.

.....

The TradeTrack service, the portion which I buy, is bought because of its ability to capture a very broad universe of outlets, including mass merchandisers, club stores, and other things.

It services a different need for me than MarketTrack.

.....

I would stop buying ISL if the MarketTrack service provided me the same data on customer [retailer] market shares.⁵⁶

99 The evidence regarding the ISL products and HomeScan is consistent with consumer panel data and products such as MarketTrack being supplements rather than substitutes. The thrust of the evidence of the manufacturers is that if budgets allow it is desirable to have both.

100 The respondent's position that tracking products derived from consumer panel data and those based on retailer scanner data are in the same product market is founded on the assertion that there are some buyers who rely on ISL for tracking services as well as for consumer diagnostics, on several internal Nielsen documents that discuss ISL as a competitor, and on the views of its expert witness. Before reviewing this evidence, it is important to underline that to conclude that two differentiated products are close substitutes, we must determine that a small change in relative price would cause buyers to switch from one product to the other, thus creating competition between the suppliers of those products. If scanner data are not available for a particular type of packaged good or for a specific channel of distribution, then clearly the manufacturer will have to use an alternative source of information to track its product. Likewise, if the manufacturer cannot afford to purchase a scanner-based service, then some alternative will be used. Neither of these extreme situations provides evidence that the products are close substitutes. In fact, if the non-scanner-based service is substantially cheaper, then this is some indication that the two products are not in the same market. The evidence of Paul Bloom of Campbell Soup was that using panel data for tracking purposes could be one-third less expensive than buying scanner data.

101 The respondent submitted in oral argument that two manufacturers and one retailer purchased ISL products *in preference* to Nielsen products but the evidence does not support this.⁵⁷ Mr. Hill of Coca Cola Foods purchases both MarketTrack and NEDS/HomeScan from Nielsen as well as TradeTrack from ISL. Mr. Oliver of Lever stated only that he thought that the ISL service "can" be used as a market tracking service; Lever currently buys from both ISL and Nielsen. Glenn McCurdy of the Overwaitea grocery chain buys TradeTrack from ISL but also receives reports from Nielsen as part of the exclusive contract for the supply of scanner data to Nielsen.

102 Such evidence as there is on the circumstances and motivation of buyers who use ISL for tracking came from Ms. Todd of Nestlé. Nestlé uses ISL, and not MarketTrack, for two beverage categories to provide business performance, or share, information as well as consumer diagnostics. Ms. Todd confirmed, however, that with panel data the emphasis was on the consumer diagnostic function, whereas where Nestlé uses MarketTrack it does so for business performance information and input into category management. What is highlighted by this evidence is the difference between MarketTrack and the ISL product rather than their similarity. Ms. Todd indicated that Nestlé was under severe budget constraints and had cancelled a number of the product categories for which it used to purchase MarketTrack. Significantly, Nestlé did not switch to ISL for any of those product categories.

103 There is evidence on the record that during recent negotiations with Nielsen Mr. Oliver of Lever threatened to discontinue buying from Nielsen and use only ISL. Lever already had a contract with ISL that still had a number of months until end of term. Mr. Oliver was of the view, as indicated above, that the ISL service "can" be used as a tracking product to show market shares and growth and decline and he maintained that his threat to Nielsen was a serious one. He did admit, however, that while Lever could have "coped" with only ISL, the situation would not have been ideal. He agreed that scanner data are preferred for product movement while panel data are best used for diagnostics. In our view, Mr. Oliver regarded panel data and scanner-based market tracking services as supplements for each other, as both being necessary to create a complete package of services needed for marketing and sales purposes. His goal in negotiating Lever's recent purchase of services was to work with one supplier capable of providing both types of data. Mr. Oliver entered into discussions with ISL as a sole supplier because it was rumoured to be joining forces with IRI to add a market tracking service to its existing product offerings.

104 As evidence of switching behaviour between Nielsen products and ISL products, the respondent relies on various Nielsen internal documents which refer to ISL as a competitor and which record instances where Nielsen clients moved to ISL and vice versa. These documents provide us with little insight on whether scanner-based market tracking services and consumer panel-based services are substitutes as only one postdates the introduction of MarketTrack in 1992. The remaining documents date from 1987 to 1990 and relate to Nielsen's audit- and warehouse shipment-based tracking products and to NEDS, its original consumer panel product offered for a few cities. We are not called upon to decide whether tracking services based on methodologies other than scanner data are substitutes for a consumer panel-based service, nor is it necessary to decide if ISL's consumer panel and NEDS were in the same market.

105 The single document which postdates the introduction of MarketTrack is dated March 1993.⁵⁸ The document contains various charts listing ISL client losses, client gains and Nielsen client losses along with a list of ISL TradeTrack customers. On its face, the document shows that one Nielsen client apparently went to ISL while several ISL clients moved to Nielsen and that, in Nielsen's view, ISL had a bad year overall in 1992. This, however, provides very little useful information as we do not know what services those clients were buying, what products or distribution channels they were concerned with or their reasons for changing or cancelling a service. We can only observe that Nielsen monitors ISL's progress and that, in 1992, ISL lost more business than it gained despite reported heavy price discounting on its part. We cannot conclude, without more, that this is evidence of switching behaviour by purchasers of marketing tracking services. The evidence is also consistent, for example, with other evidence that MarketTrack is a superior product to any consumer panel-based tracking service and that therefore ISL lost clients (a one-way switch) when it was introduced or with a scenario in which HomeScan was taking business from the CPC.

106 Ms. Guerin-Calvert referred to this document as support for her conclusion that customers of ISL and Nielsen switched *back and forth* between the two companies or bought information for different product categories from the two companies at the same time. As indicated above, this document alone certainly cannot be said to support such a conclusion. Ms. Guerin-Calvert did not specifically refer to any other documentary evidence in her affidavits or in her testimony. Nor did counsel in argument refer to other documents or testimony that might provide support for her conclusion.

107 Several other expert witnesses gave evidence regarding the relevant product market. Ralph Winter, an economist called by the Director, is of the opinion that the market definition used in the application, scanner-based market tracking services, is an appropriate one since there are no close substitutes. His opinion is derived from an analysis of the characteristics of audit, warehouse shipment and panel data, which is borne out by the other evidence presented to us.

108 Franklin Mathewson, another economist who appeared on behalf of the respondent, concluded that scanner-based market tracking services was an excessively narrow market definition. He did not, however, provide any analysis regarding the substitutability of other products in support of this opinion.

109 The intervenor, IRI, also called three economists as expert witnesses, two of whom filed a joint affidavit. All three were of the opinion that there are no close substitutes for scanner-based market tracking services. Andrew Rosenfield and John Gould raised in their joint affidavit an additional consideration that may frequently arise in alleged abuse of dominance cases, namely that at monopoly prices the appearance of apparent substitutes is likely to be misleading since the appropriate price level to measure whether products are in the same market is at competitive prices. The logic behind this so-called "cellophane fallacy"⁵⁹ is the well-known proposition in economics that in order to maximize profits a firm with market power will price at a level where the demand for its product is elastic, that is, where higher prices would cause revenue to decline as the result of the diversion of purchases to other products. Drs. Gould and Rosenfield conclude that if prices were forced down to competitive levels in Canada other tracking methods that appear as apparent substitutes would disappear. In the United States, where there are two highly competitive suppliers of scanner-based market tracking services, audit and warehouse withdrawal services had been displaced to a far greater extent than in Canada and consumer panel data are not used for tracking purposes, only for consumer diagnostics. In our view, the evidence in this case does not show that the other data sources are even "apparent" substitutes for scanner data in producing market tracking services. Therefore, we do not need to consider the "cellophane fallacy" further.

110 The evidence overwhelmingly favours the conclusion that market tracking services based on information derived from audit, warehouse shipment or consumer panel data are not in the same market as market tracking services based on scanner data. Accordingly, we find that the relevant product market for this application is scanner-based market tracking services, as alleged by the Director.

IV. The Geographic Market

111 The Director alleges that the relevant geographic market is Canada, in the sense that it is Canadian data as opposed to data from the United States or other countries that are relevant to the provision of market tracking services in Canada. This is not disputed by the respondent.

112 Geography also adds a dimension to the product characteristics of scanner-based market tracking services, which may be purchased for the entire country and/or for various regional and metropolitan areas or "breaks". The existence of such choices as well as the possibility of purchasing tracking data for a single retailer is a central feature of the differences between the parties on the effect of the alleged anti-competitive acts on entry conditions and will be revisited below under the heading *Substantial Lessening or Prevention of Competition*.

V. Control

113 In *NutraSweet*, the Tribunal equated "control", as used in paragraph 79(1)(a) with market power.⁶⁰ It described the process of identifying market power as follows:

Market power is generally accepted to mean an ability to set prices above competitive levels for a considerable period. While this is a valid conceptual approach, it is not one that can readily be applied; one must ordinarily look to indicators of market power such as market share and entry barriers. The specific factors that need to be considered in evaluating control or market power will vary from case to case.⁶¹

Thus, where the evidence does not allow the definition to be applied directly, as in the instant case, structural and other variables that can provide relevant information are used as proxies.

114 It is the Director's position that Nielsen has control of scanner-based market tracking services by virtue of the fact that it is the sole supplier of such services in Canada and has entered into exclusive contracts with retailers that deny the necessary inputs to any other potential supplier. The respondent denies that the contracts in question foreclose entry into scanner-based market tracking services. It also argues that "control" of the scanner data rests with the retailers who produce it, many of whom are large companies with significant regional market shares. Nielsen further submits that its customers, the manufacturers of consumer packaged goods, are large, sophisticated buyers who can offset any alleged market power on the part of Nielsen.

115 As stated in *Laidlaw*, a *prima facie* determination of whether a firm likely has market power can be made by considering its market share. If the share is very large, the firm will likely have market power although, of course, other considerations must be taken into account.⁶² In the *Laidlaw* case, these included the number of competitors in the market and their market shares, any excess capacity and how easily a new firm could establish itself as a competitor. In the case at bar, there is no dispute that Nielsen is the sole supplier in the relevant market and thus has a 100 percent market share. We are prepared to find that, *prima facie*, Nielsen has market power, or control, in the relevant market absent some evidence that there are no barriers to entry. The exact conditions of entry in the instant case cannot be definitively established without considering the effects of the alleged anti-competitive acts engaged in by Nielsen. It can, however, be noted at this point that although the respondent denies that its practices foreclose entry, it does not even attempt to argue that entry is easy.

116 The bargaining strength of the retailers vis-à-vis Nielsen as a buyer of their data has little, if any, bearing on the advantage that Nielsen obtains from its position as the sole supplier of scanner-based market tracking services. The Tribunal agrees with Dr. Winter that the sole relevance of the market position of the retailers lies in their ability to command a share of any monopoly returns that Nielsen may be able to obtain by virtue of its dominance in the market for scanner-based market tracking services. The position of the retailers does not detract from Nielsen's ability to exercise any market power it may hold in the market for its services.

117 As acknowledged by Dr. Mathewson for the respondent, none of the three conditions that might allow the manufacturers to limit Nielsen's market power as a sole supplier are present in this case. There are neither multiple sellers (the first condition) nor a single buyer (the second condition). There is absolutely no indication in the record that the manufacturers are interested in or are in a position to integrate backwards and provide their own scanner-based market tracking services (the third condition).

118 Further, there is evidence on the record that, in fact, Nielsen's manufacturer customers are concerned about their position vis-à-vis Nielsen as a sole supplier. Nicholas Jennery, Senior Vice-President, Trade Relations for the Grocery Product

Manufacturers of Canada ("GPMC"), appeared as a witness for the Director in these proceedings on the mandate of the association members. As a result of the proceedings in this case, Mr. Jennery conducted a quick survey of 117 members. The questionnaire, which was approved by the association executive, reads as follows:

I am asking for your support that GPMC be a witness for the Bureau, and make the following points:

1. increased competition in the area of market research is good for Canadian manufacturers in that it will help to drive down costs and support current industry cost reduction initiatives.
2. better information and technology is available in the U.S. versus Canada.
3. there is evidence to suggest that manufacturers pay less for market research data in the U.S. than they do in Canada.⁶³

Of 103 responses, 99 expressed approval for the three points, two disapproved and two refused to comment but acknowledged that they had received the questionnaire. Mr. Jennery also noted that he had received several phone calls from members who expressed some concern about the comparisons between performance in the United States and Canada because it was difficult to make allowances for general differences in the two countries.

119 In our view, what is worthy of note is not the precise contents of the questionnaire but the fact that so many of Nielsen's customers were in agreement that a pro-active course was warranted. If the manufacturers were confident that Nielsen did not have market power and they could look after their own interests, it is surprising that they so overwhelmingly supported the course suggested by Mr. Jennery given their interest in maintaining good relations with an important supplier.

VI. Practice of Anti-competitive Acts

120 In the notice of application, the Director alleges that the following actions by Nielsen constitute a practice of anti-competitive acts within the meaning of section 78 and, in particular, paragraphs 78(e) and 78(h) of the Act:

- A. Nielsen has entered into, renewed and maintained contracts with all major Canadian grocery retail chains and has begun to contract with major retail drug chains to acquire their UPC scanned data on a long-term exclusive basis, thus precluding any potential competitors from acquiring such data;
- B. Nielsen has paid significant financial inducements to retailers to acquire and maintain exclusive access to their scanner data; and
- C. while the market has been foreclosed to potential competitors through their inability to access scanner data, Nielsen has contracted and attempted to contract with manufacturers of consumer packaged goods to provide market tracking services for terms of three years or more, with conditions requiring substantial notice of termination, and imposing penalties for early termination.

121 In *NutraSweet*, the Tribunal stated that "a practice may exist where there is more than an 'isolated act or acts'."⁶⁴ As set out above, the Director alleged that the acts engaged in by Nielsen formed a "practice". The respondent did not dispute that position. We therefore find that the allegedly anti-competitive acts engaged in by Nielsen constitute a practice within the meaning of paragraph 79(1)(b) of the Act.

122 The more important question is whether those acts are anti-competitive. The two previous decisions of the Tribunal in abuse of dominance cases, have, in keeping with the language of section 78, established that the list of anti-competitive acts in that section is not exhaustive.⁶⁵ Those decisions have also established, and it was not challenged before us, that in evaluating whether allegedly anti-competitive acts fall within section 78, the Tribunal must determine the "nature and purpose of the acts which are alleged to be anti-competitive and the effect that they have or may have on the relevant market."⁶⁶ The required analysis will take into account the commercial interests of both parties to the conduct in question and the resulting restriction on competition.⁶⁷ The decision in *Laidlaw* makes it clear that, although such proof may be possible in a particular case, it is not

necessary for the Director to prove subjective intent to restrict competition in the relevant market on the part of a respondent. The respondent will be deemed to intend the effects of its actions.⁶⁸

A. Facts

123 Nielsen currently holds contracts with all major grocery retailers and with several drug retailers, including the largest, for exclusive access to their scanner data. Nielsen has had exclusive contracts with the major grocery retailers since 1986; it began entering into exclusive agreements with the drug retailers more recently.

124 Although the exact wording of the relevant clause varies somewhat from contract to contract, all the exclusivity provisions provide essentially that the retailer undertakes not to provide the data covered by the contract to anyone other than Nielsen. In most of the contracts, the exclusivity clause is broad enough on its face to cover both scanner data and other data that might be required to produce a competitive scanner-based market tracking service, such as those that might be used in tracking causal variables or in supplementing scanner data where they are unavailable or inadequate. There is no evidence that Nielsen ever sought to preclude a retailer from supplying other data.

125 Two of the agreements are of recent vintage (1994) and contain, in addition to the standard exclusivity clause, certain other provisions altering the payments to the retailer should it nevertheless sell its data to a third party. These contracts are structured so that there is one level of payments as long as Nielsen retains its "preferred supplier" status and a lower level of payments if the data are provided to others. Unlike the earlier contacts, these contracts do provide the opportunity for a would-be entrant to obtain the data. However, the contracts are so structured that any would-be entrant must at least match the reduction in payments that would result if a retailer chose to provide the data to the would-be entrant. The would-be entrant must also reimburse the retailer for the up front payments that the retailer is required to pay back to Nielsen should it sell its data elsewhere.

126 The standard term for these exclusive contracts is five years. Four of the contracts are somewhat different in that, while the nominal term is five years in all cases, various notice provisions are included which might, if exercised, shorten the term.

127 Nielsen's initial 1986 contracts with retailers were also for five years and would thus have expired within a few months of each other in 1991. As the result of the 1989 takeover of Woodward's by Canada Safeway, Nielsen was able to renegotiate the Canada Safeway contract and establish a new five-year term which expired in 1994. The Steinberg contract was also renegotiated in 1989.

128 The origin of these exclusive arrangements is of some interest, in that both IRI and Nielsen were involved. In brief, in 1984 or 1985, the Retail Council of Canada ("RCC"), a retailer trade association, approached IRI to discuss a project to develop and use retailer scanner data. Nielsen and SAMI were apparently also approached by the RCC. IRI proposed, and the RCC agreed to endorse, a joint venture arrangement to establish a tracking service based on scanner data. Under the terms of the proposal, IRI would be responsible for actually signing up individual retailers and those agreements were to be exclusive. This was the first time that exclusives were proposed to be used in market tracking services in Canada. The retailers would provide the data free of charge; IRI would contribute the technology and up-front capital. IRI would recover its operating costs and then any revenues would be shared equally with the retailers. IRI retained the option of withdrawing from the venture should it be unable to sign sufficient retailers. When Nielsen learned of the initiative, it signed one of the most important grocery retailers in British Columbia and Alberta, Canada Safeway, to an exclusive. IRI abandoned its efforts and Nielsen went on to sign exclusive agreements with all the major grocery retailers in the country.

129 With respect to Nielsen's contracts with manufacturers, it is not in dispute that in 1992-93 Nielsen re-signed virtually all its manufacturer-customers to new contracts. Prior to that time the contracts were "evergreen", the original minimum commitment period having long since expired, and were subject to termination in accordance with a stated notice period. Based on the only older contracts in evidence the standard minimum term was two years while the standard notice period was eight months. Any discounts were forfeited upon giving notice and liquidated damages were payable for termination other than pursuant to the terms of the agreement. The "new" contracts have varying minimum commitment periods but eight months is still apparently the most common notice period. Similar loss of discount and liquidated damages provisions are also included.

B. Analysis and Conclusions

130 Paragraphs (e) and (h) of section 78 include as "anti-competitive acts":

(e) pre-emption of scarce facilities or resources required by a competitor for the operation of a business, with the object of withholding the facilities or resources from a market; ...

(h) requiring or inducing a supplier to sell only or primarily to certain customers, or to refrain from selling to a competitor, with the object of preventing a competitor's entry into, or expansion in, a market; ...

Counsel for the Director acknowledges that the third anti-competitive act alleged, relating to contracts for scanner-based market tracking services between Nielsen and the manufacturers of consumer packaged goods, does not appear in section 78 but argues that it can be included by analogy if an "exclusionary, predatory or disciplinary" purpose is proven. To determine if Nielsen's actions are anti-competitive acts, as alleged by the Director, we must look to whether the purpose of those acts is to withhold scarce resources from the market, to prevent a competitor's entry into the market or to achieve some other exclusionary purpose.

(1) Exclusive Retailer Contracts

131 The unquestionable effect of the standard exclusivity provisions is to exclude all potential competitors from obtaining the retailer scanner data. Nielsen can be presumed to have intended this effect. In addition, although not necessary to the determination of the purpose of the provisions, there is also ample evidence on the record that Nielsen entered into and maintained the contracts for scanner data with the expressed goal of excluding would-be competitors and, in particular, IRI. Various internal documents set out this strategy. There can be little doubt that the reason that Nielsen entered into these contracts was to ensure that the data were and are unavailable to other potential suppliers.

132 Nielsen's proven strategy of staggering contract renewals further reinforces that the purpose of the exclusive retailer contracts was and is to exclude potential competitors. After the new contract with Canada Safeway was signed in 1989, G.F. Finlay, then President of Nielsen Canada, commented that:

This signing is a major hurdle and it means that it would not be possible for a competitor to come in and sign contracts sufficient to produce a national product. It will also improve our negotiating position immensely in the next few years.⁶⁹

Both themes, the effect on would-be competitors and Nielsen's bargaining position vis-à-vis retailers reappear in documents from 1990 to 1991 which set out a strategy of staggering contract renewals. The 1990 document focuses on retail concentration.⁷⁰ In the 1991 document, Mr. Finlay refers to the concern about entry:

After we did our retailer deals five years ago, we recognized that we were vulnerable because virtually all of these agreements expired around the same time. We set ourselves a goal then to pursue a practice that would result in our retailer and distributor contracts expiring at different times. This would make it much more difficult for any competitor to set up a service unless he was prepared to invest in significant payments before he had a revenue stream.⁷¹

133 Mr. Finlay was not called to testify although he was the President of Nielsen in Canada from 1986 to 1993. Mr. Kretch stated that the major concern was not potential entry but the possibility of the retailers combining to demand higher payments. The concern referred to by Mr. Kretch was undoubtedly present but the Tribunal finds it unlikely that Mr. Finlay would have expressed himself as he did unless he was also addressing an important consideration. Moreover, insofar as Nielsen was concerned with staggering the contracts in order to minimize the payments to retailers, it must be remembered that the payments in question were not just for the retailers' data but for *exclusive* access to them. Without exclusivity and the concomitant strong market position in the end-product market of the acquirer of the data, the retailers lose much of their bargaining power vis-à-vis the purchaser of their data.

134 To ascertain the purpose of the "preferred supplier" clauses, we must determine their likely effect on a potential entrant. One obvious effect of these clauses is to place in Nielsen's hands the ability to control the level of payments that a would-be entrant would have to make in order to obtain scanner data. Nielsen can do this through the amounts that it agrees to pay. For reasons discussed more fully in the section dealing with the alleged substantial lessening or prevention of competition and, in particular, Dr. Winter's model, we are of the view that the provisions in question allow Nielsen to set its payments at a level that would make entry by a rational would-be entrant unprofitable. The provisions achieve the same effect of exclusivity by a more indirect route. We therefore find that their purpose is the same as the more straightforward exclusivity provisions — to exclude potential competitors.

135 With respect to the four retailer contracts which contain a notice provision, we do not accept the characterization of these agreements as "non-exclusive". They clearly provide for exclusive access to Nielsen during their term. The length of the relevant term is all that is affected by the notice provisions. Unless the retailer receives at least an equal amount of money for its data it will not be in the retailer's interest to give notice.

136 In determining whether the various exclusive agreements have the necessary anti-competitive purpose, we considered that Nielsen might have had a valid "business justification" for its actions. However, the arguments advanced by Nielsen, which are reviewed in detail below, did not persuade us that there was any credible efficiency or pro-competitive business justification for the exclusives. We do not accept that self-interest constitutes such a justification. We note that Nielsen's experts also failed to provide any efficiency rationale for the exclusives.

137 Throughout the course of the proceedings counsel for Nielsen returned again and again to the origin of the present exclusive arrangements and the role of IRI to argue that, because IRI "initiated" the practice of exclusives, Nielsen's use of exclusives cannot be anti-competitive. Nielsen's position was that it was forced to adopt exclusives in order to protect its legitimate business interests against the threat of being locked out of the emerging technology and to safeguard its existing tracking services.

138 In the view of the Tribunal, retaining or obtaining a dominant position in order to defend against another firm potentially becoming dominant is not an acceptable business justification. If IRI had succeeded in its project with the retailers and continued to use exclusives even when scanner data supplanted other data sources, it would have been a candidate for the status of respondent in an application launched by the Director. That is the position in which Nielsen now finds itself.

139 Further, it was not explained to us why it was necessary for Nielsen to obtain exclusives with all the retailers if its objective was simply to prevent IRI from obtaining a stranglehold on scanner data. It is clear from the documentary evidence that Nielsen was of the view that no firm could produce a national scanner-based market tracking service without access to Canada Safeway's scanner data. The fact that it proved very easy to attract the remaining retailers once Canada Safeway had been signed and IRI had abandoned its attempt to enter the industry is hardly an adequate answer. Even on its own terms, the supposed rationale for Nielsen's initial exclusive contracts with all the retailers does not withstand close scrutiny. Further, Nielsen's actions since 1985 certainly cannot be characterized as a defence against another firm obtaining sole access to scanner data.

140 There is little evidence in support of the proposition that exclusives were justified because of the time, energy and resources that had to be expended to exploit a new technology. To even begin to justify the exclusives on this basis, Nielsen's investments would have to be related to creating benefits that other firms could then appropriate, for example, improving retailer scanner penetration or data quality and useability. There is little evidence of a substantial commitment of resources to investments of this nature. The only evidence on the record relates to the production of a video by Nielsen to encourage retailers to improve the quality of their scanner data and a form letter to the same effect, both relatively minor expenses. In fact, the theme of various Nielsen documents is concern about the high cost to Nielsen of purchasing the data from the retailers, not concern about the magnitude of the resources being committed to developing the new technology. The cost of the data is not related to the development of a scanner-based market tracking service but to securing exclusive access to the scanner data.

141 Even if Nielsen had been able to establish that there was some justification for the exclusives in the early stages of development, it would have been necessary to weigh the justification in light of any anti-competitive effects to establish the overriding purpose of the exclusives. Moreover, any such justification for exclusives in the early stages of development would not have been applicable to the current exclusives.

142 Nor do retailer preferences explain why exclusives must be included in the contracts. We acknowledge that retailers are concerned about issues of confidentiality and transparency with respect to their scanner data. Neil Everett of Shoppers Drug Mart stated that he would have some qualms about providing scanner data to two firms because it would not be clear who was to blame for any leak. Nielsen treats Saskatchewan and Manitoba as a regional unit in providing tracking information in order to ensure that the sales figures from individual retailers cannot be identified. Retailers like Loblaws who market their own brands retain control over the release of key account data so as not to reveal their sales to competing manufacturers. Nevertheless, if the retailers wish to deal with a single purchaser of their data because of these concerns, they will do so even in the absence of an exclusivity provision. They will simply contract with one purchaser rather than several. The difference from the existing situation is, of course, that the payment to the retailer will reflect the value of the data alone, rather than the data plus exclusivity.

143 Further, there is no evidence that these retailer concerns actually led to the existing exclusive arrangements. Other than Shoppers Drug Mart, which requested bids on both an exclusive and non-exclusive basis in 1994, there is no evidence of any retailer requesting exclusivity.⁷² The witnesses from the Provigo and Overweitea grocery chains stated that the initiative for the exclusivity provision did not originate with their firms. Further, while Mr. Everett expressed a preference for dealing with a single tracking firm, he also stated that the main reason Shoppers Drug Mart decided to grant exclusive access to Nielsen was the price that Nielsen was willing to pay for it, not the other reasons.

(2) Inducements to Exclusivity

144 Scanner data are worth more to Nielsen when it has exclusive access than when those data are, or might be, shared with competing suppliers of market tracking services. The benefits of excluding competition are reflected in the price that Nielsen was and is willing to pay for the data.

145 Mr. Kretch confirmed that Nielsen's plan in 1986 was to make substantial payments to the retailers in order to secure exclusive access to the scanner data, even though it knew that it would not be able to utilize the data for some time. An internal document reveals that there was indeed an increase in payments to retailers of over 500 percent when the exclusive contracts for scanner data were entered into in 1986.⁷³ The fact that Nielsen knew it would not be able to make use of the scanner data for several years negates the possibility that the increase in payments reflected only the value of scanner data as compared to the previous data sources. The withholding of data from others was the major consideration.

146 Beyond 1986, the inducements for exclusivity are not as easily identifiable because the amounts paid to retailers are lump sums; they are not broken down into a payment for the data as such and a payment for exclusive access to the data. We can, however, look to a recent contract negotiation in which the retailer was provided with proposals on both an exclusive and non-exclusive basis for an indication of what Nielsen is willing to pay for exclusivity. We recognize these proposals were likely affected by strategic considerations related to the ongoing litigation in this matter and, therefore, are not a wholly accurate benchmark. Nevertheless, given that the base annual payment on an exclusive basis (calculated by taking the total payments and dividing by the term) is about twice as much as the non-exclusive payment, there is an unmistakable inducement to exclusivity contained in the higher payment.⁷⁴ It was also the uncontradicted evidence of the retailer in question that it was the level of the payment for exclusivity that decided it in favour of granting exclusive access to Nielsen.

(3) Manufacturer Contracts

147 A number of Nielsen documents refer to a strategy of trying to "lock up" as much business as possible in the face of possible entry by IRI. The references start in 1986, for example: "Shift as much of our business as possible to long-term

agreements (3-5 years)."⁷⁵ In July 1992, when IRI was again perceived as a threat, Nielsen resolved at an "IRI Competitive Strategy Meeting" that:

All U.S. IRI customers will be focussed on, and action will be taken to do the following:

— Sign customers to high value long-term agreements (three or more years).⁷⁶

This approach was again articulated in a memorandum dated June 3, 1993 to D.G. Easter, Nielsen's Vice-president of Marketing and Operations, from P.C. Gardiner, who was in the marketing department, in anticipation of possible entry by IRI.⁷⁷ In an August 1993 report entitled "IRI Review" likely points of entry by IRI into Canada are considered, including IRI's U.S. customer base. A Nielsen customer strategy of "new, long-term, high value contracts" is proposed. A list of IRI U.S. customers is attached, divided into two groups: those "... Recently Servicing New Long Term Agreements With Nielsen Canada" and those "... Not Recently Signed-Up On New Agreements In Canada".⁷⁸ An earlier memorandum, dated February 22, 1993, to all sales/service personnel stated the need to protect Nielsen's business from an IRI launch in Canada and recommended going for "longer term contracts, a minimum of three years." A list of major IRI U.S. customers was attached.⁷⁹

148 We were not given any reason to question the plain meaning of the Nielsen documents. The only Nielsen witness who gave evidence on this question, Mr. Nelson, confirmed that signing customers to new long-term contracts and targeting IRI U.S. customers were indeed part of Nielsen's strategy. We therefore conclude that Nielsen regarded IRI as a potential entrant and adopted a strategy of signing long-term customer contracts generally, and with IRI U.S. customers specifically, as a means of preventing IRI's entry.

149 Although he did not deny Nielsen's intentions vis-à-vis IRI, Mr. Nelson did attempt to place Nielsen's activities in signing customers to new contracts in the context of the introduction of MarketTrack, which was not covered by the existing agreements. We accept that Nielsen found it useful and perhaps necessary to enter into new agreements when it introduced MarketTrack. However, it is far from clear that long-term contracts would be desirable to Nielsen in the absence of feared entry by IRI. Nielsen operated for years with "evergreen" contracts whose minimum commitment period had long expired without apparent concern for whatever value long-term contracts might provide.

150 Proof of the existence of a business motive for long-term contracts that was unrelated to an anti-competitive purpose would undoubtedly be relevant to an evaluation of an allegation of anti-competitive acts. The mere proof of *some* legitimate business purpose would be, however, hardly sufficient to support a finding that there is no anti-competitive act. All known factors must be taken into account in assessing the nature and purpose of the acts alleged to be anti-competitive.

151 For the purposes of this litigation, the respondent had a number of charts prepared that itemize the lengths of its contracts for all its products and the revenues generated from each of the clients associated with the contracts.⁸⁰ One of the charts deals only with the contracts entered into by Nielsen with companies that deal with IRI in the United States.

152 The distribution of contracts of various lengths with respect to all customers confirms that Nielsen succeeded in "locking up" a large percentage of customers with long-term contracts. Although counsel for the respondent referred to a prior contract that had a minimum commitment period of two years as providing a standard against which the distribution of current contracts should be measured, the evidence is that "evergreen" contracts terminable on notice were in fact the standard for prior contracts. In comparison with the prior situation where virtually all the contracts were terminable on eight months notice, the current contracts are for considerably longer terms.

153 With respect to the length of contracts with manufacturers that are IRI customers in the United States, the charts compiled by the respondent support the other documentary evidence and the Director's position that Nielsen made a special effort to sign these customers to long-term contracts. Whereas 29 percent of Nielsen's 1994 total manufacturer revenues was subject to contract lengths of three years or more, the comparable percentage for Nielsen revenues from manufacturers who are customers of IRI in the United States was at least 43 percent. The latter percentage may be understated because Nielsen is

already providing service to another large IRI U.S. customer that would be subject to a contract of three years or more but the contract had not yet been signed at the time of the hearing.

154 The Director takes the position that the nature and purpose of Nielsen's actions regarding the manufacturer contracts cannot be assessed independently of Nielsen's other anti-competitive acts. We agree that alleged anti-competitive acts must be considered in their full context. We conclude that Nielsen intended its long-term manufacturer contracts, along with the exclusives and inducements to exclusivity, to exclude potential competitors generally and IRI specifically. All three actions constitute anti-competitive acts under section 78 of the Act.

VII. Substantial Lessening or Prevention of Competition

155 The final element that must be proven for the Tribunal to make an order under section 79 of the Act is that the practice of anti-competitive acts described in the preceding pages has had, is having or is likely to have the effect of preventing or lessening competition substantially in the market for scanner-based market tracking services. We have found that Nielsen intended by its actions to exclude potential competitors, specifically IRI. We must now consider the degree of success it achieved or is likely to achieve, if any. The central issue to be decided in determining whether the Director has satisfied this third element is the effect of the exclusives with retailers and the long-term contracts with customers on the conditions of entry into the market. Or, to paraphrase the words of the Tribunal in *NutraSweet*, in essence, the question to be decided is whether the anti-competitive acts engaged in by Nielsen preserve or add to Nielsen's market power.⁸¹

156 First, we must establish what the conditions of entry would be without the exclusives and, then, determine how the anti-competitive acts altered the prospects for economically feasible entry. The evidence of the IRI witnesses regarding the necessary inputs to produce a scanner-based market tracking service was uncontradicted. One such input is the technology and know-how required to put together a representative sample and to collect, process and analyze a large volume of data. While there may be a number of firms that could develop these skills and systems, at the present time only IRI has the necessary skills and the demonstrated commercial interest. A second required input is a dictionary that translates the product UPC's into detailed descriptions useful to the buyers of the tracking service. A dictionary would have to be specially developed for Canada to conform to the particular product offerings in this country. A third input is a "field force" to collect causal data from the stores. The last element is the scanner data required for the tracking service.

157 IRI is currently missing three of the four required inputs. Both the dictionary and the assembly of a field force are relatively minor inputs in terms of expense, although it could take a number of months to develop the dictionary. Clearly, the principal deterrent to being able to provide a tracking service in Canada is the lack of scanner data, both current data and historical data for approximately one year. The historical data are required by customers for comparison purposes with current data and must, at a minimum, extend to the previous year to take into account seasonal variations in product sales.

158 Once in a position to provide a tracking service, another requirement for successful entry is the availability of customers. The costs associated with data acquisition and the other attendant costs of entry must be incurred regardless of the number of customers to whom the end product will be sold. The revenue base available must be sufficient to cover these costs or entry will not be feasible.

159 Given the critical nature of the input, the scanner data, tied up by Nielsen's exclusives with retailers, the exclusives constitute a *prima facie* barrier to entry. If the data necessary to produce a scanner-based market tracking report on either a national or a regional basis are tied up by an exclusive, the would-be entrant is not able to provide the service in question. In contrast, in the absence of exclusives the retailers would be free to provide their data to more than one firm. Under normal circumstances they would have the incentive to do so since the cost of providing the data to a second firm is virtually nil and the retailer is in a position to demand payment in keeping with its relative bargaining strength based on its importance in the retail market. As has been noted earlier, a retailer may well have concerns about confidentiality and transparency with respect to its data. Those concerns would simply become part of its negotiating position with the prospective purchasers of its data.

160 Nielsen and its experts have advanced the view that the exclusives have not resulted in a substantial prevention or lessening of competition because it was and is open to IRI to "compete" with Nielsen for the exclusives each time they come up for renewal. Thus, the argument proceeds, in 1986 and in 1991 IRI could have outbid Nielsen and secured for itself exclusive access to the scanner data and can do so upon expiry of the current agreements. This, it is argued, results in a competitive market. The respondent does not, however, provide any evidence or, indeed, any argument as to how or why this type of "competition" for exclusives would produce the results that one looks to competition for, namely lower prices and better products.

161 Dr. Winter describes what occurred in 1986 with respect to the retailers' scanner data as "competition for the market", in contrast to competition *within* the market, the market in question being the supply of a national scanner-based market tracking service. The winner becomes the sole supplier of the service for the duration of the exclusives. As noted by Dr. Winter, the most likely effect of this type of competition for exclusives is higher prices to retailers for their data which would be incorporated into the price charged for the market tracking service based on the data. The only possible benefit of competition for exclusives was raised by Dr. Mathewson who suggested that there was a possibility that the payment received by the retailers might get passed on to their customers. While raised as a possibility, there was no reason given as to why this might be expected to happen and no evidence was before us relating to the possibility. We believe that the more likely outcome is that the payments received for exclusive access are simply reflected in the retailers' bottom line profits since it is difficult to see how the payments would enter into the retailers' pricing decisions.

162 Dr. Mathewson and Ms. Guerin-Calvert also advanced the view that there has been no substantial lessening or prevention of competition because IRI is already in the market for scanner-based market tracking services. It is an undeniable fact that IRI does not offer a product in Canada. The argument appears to be based on the circumstances of IRI having on occasion approached various retailers in Canada, discussed obtaining their scanner data and, possibly, submitted a proposal, albeit an unsuccessful one. Even if IRI went as far as making a bid for data, that action cannot be characterized as "entry". The Tribunal in *Laidlaw*, and also in *Southam Inc.*, stated that entry is to be understood as sustainable or viable entry.⁸² In evaluating whether entry into a market is easy it is necessary to consider not only whether it is easy for a newcomer to place a foot in the door but also whether it is likely that the firm will survive. We cannot accept that IRI has entered the Canadian market without access to a key input and thus without the slightest possibility of providing a scanner-based market tracking service. We underline that there is no evidence of IRI having offered any type of market tracking service in Canada. This argument is totally devoid of merit.

163 The main issue that must be addressed with respect to the identification of any likely prevention of competition in the supply of scanner-based market tracking services in Canada is whether it was possible for a firm such as IRI to bid for individual retailers' data as the Nielsen exclusive contracts expired and enter the market gradually. Nielsen argues that such entry would have been profitable for IRI because it could then have sold its exclusive data as key account data or, if it acquired several retailers' data, on a regional basis. Further, the respondent submits, IRI would then have in its control a necessary piece of the national picture, which it could use to bargain with Nielsen to acquire access to the remaining portions. The situation in Australia was referred to as a model of how the market in Canada could operate if IRI chose to try to enter piecemeal.

164 A critical part of the respondent's argument in this respect is its view that IRI is using the machinery of the Act for its own purposes and, by implication, that the Director is IRI's unwitting pawn in the process. The Nielsen exclusives have been in place for nearly a decade. During that time IRI has not entered on a piecemeal basis. In general, the fact that a firm with a demonstrated interest in entering an industry has not done so indicates that, for one reason or another, the firm would not find it profitable to enter.

165 Clearly, IRI's participation in this proceeding is not an act of charity. It has a strong interest in the outcome since it wishes to conduct business in Canada. Its business interests led it to file a complaint with the Bureau of Competition Policy and to support the Director's position before the Tribunal. Nielsen's business interests led it to take the opposing position. Knowing and accepting these facts does not help us to resolve the issues before us. Our concern is to identify whether there has been a substantial prevention or lessening of competition in this case and, if there has, to rectify it to the extent possible. Other considerations are irrelevant.

166 That having been said, the evidence does not support the contention that IRI has been purposefully delaying its entry in order to buttress the Director's case before the Tribunal. One evident weakness with the conjecture is that IRI was kept out of the market tracking industry in Canada for a number of years before it made its complaint to the Director. In our view, the evidence does not support the argument that IRI has been purposely refusing to try and enter the Canadian market *since 1986*, when such entry would otherwise be profitable, in order to lend its complaint greater weight and possibly affect a 1994-95 proceeding before the Tribunal.

167 The interaction between IRI and Loblaws in 1991, as Loblaws' first exclusive with Nielsen was expiring, was referred to as evidence that IRI believed as a rational, profit-maximizing firm that it could enter with only Loblaws data. This is said to prove that entry was possible and therefore that the exclusives have never been a barrier.

168 We do not adopt this interpretation of the 1991 events. It is clear that Mr. Fulgoni of IRI entered into some discussions with Loblaws in 1991. It is not clear that IRI ever actually submitted a firm bid for the scanner data; the relevant documentation refers to being "prepared to submit a bid" for the exclusive purchase of Loblaws' data.⁸³ Mr. Fulgoni testified as to his doubt that any proposal of IRI would be taken seriously, given that Loblaws was on the verge of resigning with Nielsen. Loblaws did not, in fact, respond to the initial IRI "proposal". When Mr. Fulgoni learned, through a third party, of Loblaws' decision to sign with Nielsen, he wrote another letter referring to a sum of money that IRI "had been planning on presenting" as an offer.⁸⁴ Again, Loblaws did not respond. We accept Mr. Fulgoni's explanation that he hoped that "what might happen is that [Loblaws] might use this number to up their Nielsen payments, and that I could at least cause Nielsen to make less money in Canada and thereby use less profits to prevent our geographical expansion in other countries."⁸⁵

169 Even if we were to consider the IRI initiative with Loblaws in 1991 as a firm and serious "bid" for its scanner data, the fact that Loblaws turned it down to sign with Nielsen contradicts rather than supports the respondent's hypothesis. If, as Nielsen argues, IRI was making a rational effort to enter, then the fact that it did not succeed supports the view that such entry cannot succeed rather than the opposite.

170 Another piece of evidence that was relied on as proof that IRI failed to take advantage of existing opportunities to enter the market was a statement attributed to an employee of IRI during discussions in January 1994 with Shoppers Drug Mart. Mr. Everett of Shoppers Drug Mart testified that, when asked if IRI would consider submitting both an exclusive and a non-exclusive proposal, Ron Larocque, the general manager of IRI's Canadian software operation, responded that he could not do so because it might jeopardize the case before the Tribunal. As Mr. Everett was aware, Mr. Larocque's responsibilities related primarily to IRI's software business; Mr. Daboll, who was also present, was identified as "spearheading" any data acquisition. We have taken due note of the fact that the statement was made. Given, however, the overwhelming weight of the remainder of the evidence that it would not have been profitable, or even feasible, for IRI to bid on a single exclusive, we are not inclined to give much weight to an offhand remark by an IRI employee without any apparent prior involvement in data acquisition decisions and who was certainly not in a position of responsibility regarding that aspect of IRI's business.

171 We were also invited to draw an adverse inference regarding IRI's intentions from its refusal, in June 1994, to respond to an invitation to bid on the Canada Safeway data. In light of the complete absence of any other evidence that would support the proposition that it was rational for IRI to submit a proposal, we see no reason to draw the suggested inference.

172 We will now turn to the remainder of the evidence regarding the potential for piecemeal entry and the possibility of a market configuration like that in Australia developing in Canada. First, some background on the Australian situation is necessary. One of the respondent's witnesses, Mr. Kretch, was directly involved in the Australian market from 1982 to 1986 and remained familiar with it up until 1993. He described how some Australian retailers make use of "data agency" agreements in selling their product movement data. Pursuant to a data agency agreement, the retailer gives the exclusive re-marketing rights to its data, both product movement and causal data, to a single company. That company is permitted to market and sell the data to the manufacturing community. Other retailers sell their data directly to the manufacturers. The movement data in question was initially electronic warehouse shipment data and only later scanner data.

173 The identity of the participants in the Australian market changed somewhat during the time period about which we heard evidence. At the beginning of the period (in 1984 or 1985), Nielsen had an exclusive data agency agreement with Franklin's, the third largest grocery chain;⁸⁶ a second company, Morgan Research, had agreements with some of the smaller chains and warehouses. The remaining retailers, including the top two chains, sold their data directly to the manufacturers. Nielsen and Morgan Research sold retailer-specific data for the retailers they had contracted with to the manufacturers. Nielsen, Morgan Research, and the manufacturers that were buying data directly and wanted to produce their own national report, contracted with each other to obtain the missing data elements and each then produced a national report. Nielsen and Morgan Research sold their national reports to manufacturers who did not produce their own report.

174 Morgan Research was then acquired by Nielsen. From 1986 to 1988, IRI held an exclusive data agency agreement with Woolworth's, the second largest chain but apparently never produced an integrated national report. By 1993, there were only two significant players which, as far as we know, remains the case today. South & Walker/Infohouse, a company formed by an ex-Nielsen employee who had previously been negotiating with Coles on Nielsen's behalf, has a data agency agreement with Coles, the number one chain. Nielsen has exclusive arrangements with the majority of the remaining retailers and will actively pursue Coles when its contract with South & Walker expires. A few retailers are still selling their data directly to the manufacturers. Both Nielsen and South & Walker sell key account data for their contracted retailers and produce integrated national reports. According to Mr. Kretch, Nielsen had the majority of the data integration business in 1993. The proportion of manufacturers who integrated the data themselves in-house was only about 10 percent and was declining.

175 Two questions are raised by the evidence on the Australian experience: first, does it provide any lessons regarding the effect of exclusives on entry conditions in the Canadian market; and second, does it suggest a desirable result in comparison with the existing Canadian situation and the situation which would likely result from ending exclusives.

176 At the outset, we note that the data agency agreements in Australia are not the same as the exclusive arrangements of Nielsen in Canada. Payment arrangements under data agency agreements in Australia vary. In Nielsen's case there is an up front payment to the retailer by Nielsen and sharing of revenue from sales to manufacturers between the retailer and Nielsen. Nielsen's Canadian exclusives provide for set payments by Nielsen, with the minor exception of revenue sharing for key account data once a certain level of sales have been achieved. An entrant into the Canadian market would almost certainly have to offer fixed payments rather than revenue sharing, particularly since the retailers would recognize that doing business with the entrant was riskier than remaining with the incumbent. In addition, the two largest retailers appear to have set the parameters for the market tracking industry in Australia, retaining a far greater degree of control than has occurred in Canada. Thus, the respective roles of retailers and firms that provide market tracking services has been very different in Australia than it has in Canada. A more important difference is the fact that there have been national reports provided in Canada by a supplier with direct access to all data. A would-be entrant would have to overcome a significant credibility gap if it were bidding on an exclusive basis for individual retailers and counting on bargaining with Nielsen to obtain the remaining data for a national report. For these reasons, the prospects for a division of retailer exclusives between two or more suppliers are fewer in Canada than in Australia.

177 Further, as the evidence shows, the Australian market has become increasingly concentrated over the period in question, rather than the reverse. The number of suppliers of market tracking services in Australia has declined, as has the number of manufacturers integrating data on their own. If Nielsen succeeds in signing Coles upon expiry of its current contract, Nielsen may well become the sole supplier in that country. Mr. Kretch also referred to New Zealand, where a similar data agency concept is used. In New Zealand, Nielsen is the sole agency involved and the sole service provider.

178 The analysis of Dr. Winter is particularly appropriate for addressing the prospects of piecemeal entry by IRI as Nielsen's contracts with individual retailers expire and for addressing any lessons from the Australian experience. Dr. Winter draws on the principle that the earnings of a monopolist are likely to be greater than the combined earnings of two firms because competition between the two firms drives down prices and increases costs without a compensating increase in sales. This proposition is not challenged by the respondent's experts.

179 As Dr. Winter recognizes, this principle only holds when the firms in question produce very similar products. Dr. Winter concludes that the condition is satisfied in this case for the scanner-based market tracking services offered by Nielsen and IRI (based on its U.S. product). Although Dr. Mathewson did not profess to have studied the matter, he was of the view that two pieces of evidence supported the premise that Nielsen and IRI produce significantly different products.

180 The first is an April 1994 letter from Mr. Daboll of IRI to a Canadian retailer discussing the potential outcome of this case and stating that "the amount you will receive for your scan data is certain to be higher in a competitive environment than in the current monopoly environment."⁸⁷ A similar letter was sent to other major Canadian retailers. The second is evidence that Mr. Fulgoni gave an assurance in the same vein, to apply in an environment of non-exclusives.

181 Mr. Daboll testified that he sent the letters to try "to manage what we felt was a fear of the unknown among Canadian retailers who may not be familiar with who we are and what we do. We didn't want them to think that they were somehow entangled up in this litigation."⁸⁸ Mr. Fulgoni said: "I am concerned that the retailers have been led to believe that if these exclusives are struck down, they stand to lose a lot of money. I would imagine that that is a concern that they would have. I think it is critical that we alleviate their concerns in that regard."⁸⁹ We are of the view that the documents referred to provide little support for product differentiation. The direct evidence from manufacturers who buy or bought from IRI and Nielsen in the United States does not support a conclusion that their offerings are significantly different, but rather indicates that competition between the suppliers has resulted in falling prices and improved products which are very similar.⁹⁰

182 Dr. Winter applies the principle regarding the combined profitability of duopolists relative to a monopolist to conclude that, in a world of exclusives for scanner data, there will be a tendency for a single supplier of scanner-based market tracking services to emerge and remain. The single supplier can always afford to bid more for the data than can a firm that knows that it will be one of two suppliers of competing services.

183 Dr. Winter goes on to discuss what would in his view occur in the unlikely event that an entrant won one or more exclusives. As he points out, a situation would be created in which two firms hold data that are *complementary* to each other for purposes of producing a national report (or possibly regional reports, depending on the data each controls). As he notes, firms that are producing complementary products are producing highly differentiated products. The two firms would be competing only in the provision of services to manufacturers for combining data acquired by the manufacturers from the two firms. In this scenario, Dr. Winter's analysis of why a monopolist will always outbid an entrant causes the Tribunal some difficulty. The reason for reduced profits where there are two firms is attributed by Dr. Winter to the fact that industry profits are highest when there is a single firm and that competition forces down prices and reduces profits. This reasoning applies only where the firms are producing substitutes.

184 The Australian experience, however, indicates that Dr. Winter's conclusion nevertheless applies. The increasing concentration in the supply of market tracking services in Australia, and also the existence of a sole provider of this service in New Zealand, is consistent with the conclusion that bidding for exclusives, or for the market, is likely to result in a single supplier. What the Australian evidence suggests is that the reason for this is that overall profits are likely to be lower where two or more firms each control different data because, in addition to competing to create a national data set, having to integrate the complementary data sets results in an inferior product at higher cost.

185 The evidence of Mr. Kretch regarding Australia revealed that integrating scanner data from various sources is complicated by the fact that these data are sample-based. Thus, anyone who purchases data for, for example Coles, must rely on the sample created by South & Walker in collecting that data as being representative of Coles and must integrate the data into a national or regional report based on that original sample. Since the end user of the data is the manufacturer, it does not have some means of checking the credibility of the data with respect to its own products by checking them against its records. However, there are undeniably difficulties involved.

186 Irrespective of sampling concerns, there are other difficulties in integrating data collected by different organizations if each uses a different dictionary to translate the UPC into detailed product descriptions. The company integrating the data must be able to sort out the appropriate brand and category totals by controlling these descriptions. This probably does not entail major costs, but is an indication of more costly operations when firms do not have control of sampling and data collection within their own organizations. As Mr. Kretch admitted, Nielsen itself would prefer to have direct access to the Coles' data and, indeed, to all data of all Australian retailers. Nielsen considers the Australian situation an "anomaly" or, at least, hopes that it is.

187 In the light of the above, we conclude that it is highly unlikely that IRI would outbid Nielsen or any single retailer's data as long as both behave rationally and have reasonably good information. There is no reason to believe that these conditions are not met. Further, even in the event that miscalculation resulted in IRI winning an exclusive, the long-run tendency to a single provider would still be operative. Thus, even taking the most optimistic view of the prospects for successful piecemeal entry into Canada, that is where the entrant was able to sell, at a profit, the individual retailer data that it had acquired, the likelihood is that Nielsen as the incumbent would outbid the would-be entrant in the next round.

188 In fact, the evidence regarding Canada shows that the prospects of profitably selling key account data alone are not good. Total sales of key account data⁹¹ accounted for only 9 percent of Nielsen's 1994 revenues; MarketTrack Grocery accounted for 36 percent.⁹² Nielsen also had the added advantage of being able to offer national and regional data to its purchasers of key account data. Hardly any customers buy key account data alone. A Nielsen document reveals that, in 1993, only three of 76 purchasers of key account data bought that data without the related tracking service.⁹³ Key account data are most valuable when they can be compared to the national or regional picture.

189 Moreover, Nielsen's total revenue from the sale of key account data is hardly sufficient to justify a would-be entrant bidding anywhere near the level of payments that Nielsen currently makes to retailers. Payments to retailers in 1993 for scanner data were about 1.8 times total key account revenue in that year, which includes sales of non-scanner data.⁹⁴ Further, on the cost side, this comparison only takes into account up front lump sum payments (averaged over the life of the contract) and annual payments. It does not allow for payments per store and revenue-sharing payments to retailers for key account sales. Piecemeal entry that relies on the sale of key account data is not a viable entry strategy.

190 In her oral testimony, Ms. Guerin-Calvert speculated that ISL still has the "lion's share" of the key account revenues available in Canada, as it did prior to 1991. Since we have already determined that consumer panel-based services such as ISL's are not within the product market, her speculation is irrelevant. We do note, however, that Ms. Guerin-Calvert did not refer to any evidence to support her statement. Even if we had found that consumer panel data were a substitute for scanner data, the evidence we do have, which indicates that Nielsen's 1993 revenues from key account data alone were over half of ISL's total revenues from the CPC and TradeTrack together for the year ended September 1994, would tend to discredit Ms. Guerin-Calvert's supposition.

191 The prospect of IRI acquiring enough exclusive contracts to provide regional data is, of course, even more remote than the prospect of it successfully acquiring a single retailer. If it did happen, however, the evidence relating to Nielsen's short-lived Ontario ScanTrack product reveals that the sale of regional-only data is no more likely to be profitable than the sale of key account data alone. Another Nielsen document reveals that, in 1993, only 20 customers bought regional data alone, while over 100 bought national data or a combination of regional and national data.⁹⁵

192 Considerable evidence was introduced regarding the situation in the United States, where IRI and Nielsen acquire data from retailers on a non-exclusive basis and compete vigorously in the provision of scanner-based market tracking services. Comparing this evidence with that from Australia and the existing Canadian situation, we conclude that it is manifest that the only prospects for competition in the market for scanner-based market tracking services are found where there are no exclusives. Nielsen's exclusive contracts and the inducements that led to them have resulted in the prevention or lessening of competition substantially in the Canadian market for scanner-based market tracking services. Its long-term contracts with its customers also prevent competition by significantly reducing the volume of business available to a would-be entrant. This latter consideration,

however, assumes importance only in a context where the barriers resulting from the exclusive contracts with retailers have been eliminated. If an entrant cannot get access to the necessary input for providing a scanner-based market tracking service, namely the scanner data, it is irrelevant at this point that the entrant would also be precluded by long-term contracts from obtaining sufficient customers to survive.

VIII. Remedies

193 Having made the findings set out above under paragraphs (a), (b) and (c) of subsection 79(1), the Tribunal is authorized by the closing words of that subsection to make an order prohibiting the respondent from engaging in the practice found to be a practice of anti-competitive acts. In addition to or instead of an order under subsection (1), the Tribunal may make an order under subsection 79(2) which goes beyond simple prohibition of the practice of anti-competitive acts if it finds that an order under subsection (1) is not likely to restore competition in the market. Under subsection (2), the Tribunal may order the respondent to "take such actions, including the divestiture of assets or shares, as are reasonable and as are necessary to overcome the effects of the practice in that market." In making an order under subsection (2), subsection (3) requires the Tribunal to make the order in terms that will, in the Tribunal's opinion, "interfere with the rights of any person to whom the order is directed or any other person affected by it only to the extent necessary to achieve the purpose of the order."

194 Both subsections (1) and (2) provide that the Tribunal "may" make an order. The word "may" allows the Tribunal some residual discretion to refuse to issue an order despite its findings, although the occasions when the exercise of that discretion is appropriate will surely be rare. We do not consider that the circumstances of this case justify our declining to issue an order. We agree with the respondent that there is a possibility that, even if we prohibit Nielsen from using exclusive retailer contracts, retailers will choose to offer their data to only one purchaser. We do not accept the respondent's position that the Director must, in effect, prove that the order *will* be effective for the Tribunal to act. While we cannot say with certitude that the order will ensure competition in the supply of scanner-based market tracking services in Canada, we have found that without the order there is and can be no effective competition. We would be remiss if we declined to issue an order simply because the Director cannot guarantee its success. In any event, we are of the view that it is unlikely that the retailers will insist on *de facto* exclusives once Nielsen is prevented from offering them incentives to exclusivity. The future conduct of IRI in this regard is also critical and is dealt with under the heading *IRI Undertaking* below.

195 The Director submitted an initial draft order at the outset of oral argument and filed a revised version after the close of argument. The respondent and the intervenors had the opportunity to make submissions on the terms of both drafts. These reasons will focus on the main issues that were in dispute and the major changes to the Director's draft that flow from our conclusions. First, we will deal with the identification of the persons subject to the order and the IRI undertaking, then examine the issues arising from the requested relief with respect to the retailer contracts, the manufacturer contracts and, finally, historical data.

196 Except with respect to historical data, we felt that the issues were thoroughly canvassed in argument before us and, therefore, an order dealing with the remaining issues will be issued simultaneously with these reasons but under separate cover. The order will be effective upon issuance.

197 With respect to historical data we would like the benefit of further submissions from counsel. To that end, we have included a preliminary draft of a provision to deal with historical data in these reasons. We ask that counsel consult together and inform the Tribunal whether they wish to make submissions in writing or re-appear in person or both. Any written submissions should be served and filed by September 15, 1995 so that any further oral argument may take place during the week of September 18, 1995. An order regarding historical data will be issued as soon as possible following the additional argument and will be retroactively incorporated into the original order and will take effect as of the date of the original order.

A. Persons Subject to the Order

198 We prefer that the order refer to the respondent only, rather than "the respondent, its affiliates, officers and agents" as suggested in the Director's draft. We wish to make it clear that we are not attempting to limit or narrow the scope of the order

by doing this. Simply put, we are of the view that the listed words are unnecessary since if someone other than the respondent itself violates the order with the authority or on the instructions of the respondent, then the respondent is in breach of the order.

B. IRI Undertaking

199 We do not have the authority to order IRI, which is not a party before us, to do anything. We acknowledge the undertaking given by Mr. Fulgoni on behalf of IRI to the Tribunal, stating that IRI will agree not to enter into exclusive arrangements with retailers if Nielsen is prohibited from doing so. We confirm for the record that we took it into account in fashioning the remedies. As the remainder of our reasons will show, we have certainly, among other things, prohibited Nielsen from entering into exclusives. We are confident that IRI, as a reputable public company, will comply with its undertaking. While we are not prepared to include the undertaking as a paragraph in the order, we have included it as part of the preamble to the order.

C. Retailer Contracts

200 There are two aspects to the relief with respect to the retailer contracts — possible future contracts and the existing contracts. We have prohibited Nielsen from entering into any future contracts which restrict or preclude a retailer from supplying its scanner data and causal data necessary for the provision of a scanner-based market tracking service to someone other than Nielsen and from offering a retailer inducements to restrict or preclude access in that way. The order covers both straightforward exclusivity clauses, such as are found in the majority of Nielsen's current retailer contracts, and any other clauses which, like the "preferred supplier" clauses reviewed above, indirectly achieve the same effect and, likewise, all inducements to exclusivity, whether direct or indirect.

201 We have also prohibited Nielsen from entering into contracts which contain what has been referred to as a "most favoured nation" ("MFN") clause for a period of 24 months from the date of the order. Under the MFN clause the retailer agrees not to provide its data to a third party on terms more favourable than those it has granted to Nielsen. A clause of this type is found in two recent retailer contracts.

202 We did not deal with these clauses as part of our discussion of anti-competitive acts because, given that the contracts in question also contain "preferred supplier" clauses, the MFN clauses are at present redundant. Competition will not be restored in the market for the supply of scanner-based market tracking services, however, if Nielsen is permitted to use this type of clause in future contracts. The effect of an MFN clause is that Nielsen determines what would-be competitors will have to pay for scanner data. MFN clauses could thus be used by Nielsen to induce exclusivity because they allow Nielsen to set the price for data higher than it thinks a rival will pay.

203 There is, however, no reason to object to MFN clauses once a second supplier of scanner-based market tracking service has established itself in the market. It would be unfair to force Nielsen to face a rival who was free to use MFN clauses while Nielsen was prohibited indefinitely from doing so. A time-limited order would be sensitive to the requirement under subsection 79(3) of not going farther in our order than necessary to solve the problem. Accordingly, we have placed a time limit on this provision.

204 We have included causal data in the various paragraphs of the order that relate to retailer contracts because the evidence unequivocally shows that access to causal data is essential to produce a scanner-based market tracking service and, therefore, to restore competition in the market. It would be irresponsible for us to fail to ensure that this information, along with scanner data, is freed from the exclusive control of Nielsen. The exclusivity clauses in Nielsen's current retailer contracts are, in general, broad enough to restrict the supply of causal data. Since scanner data were also unavailable, it is not surprising that there was no evidence of Nielsen having attempted to prevent retailers from providing causal data to third parties. Nielsen's interests in enforcing such provisions would undoubtedly change once there was a possibility of a competitive struggle with another supplier of scanner-based market tracking services.

205 We have explicitly restricted the order to scanner and causal data. The draft order submitted by the Director is worded broadly and could be interpreted to prohibit exclusives over not only these data but also warehouse withdrawal and audit data that might be used to "fill in the gaps" in a scanner-based market tracking service. It may be that audit and warehouse withdrawal

data are required to produce a scanner-based market tracking service in Canada given the current level of scanner penetration. However, the inclusion of these data in an order cannot fairly be considered to have been in issue in this case. The original application did not refer to data other than scanner data. When the Director presented a motion to amend his application, he referred only to the need for an order to cover causal data as well as scanner data. If he was of the view that audit data and warehouse data also had to be included he should have made this clear. The respondent was not then, or subsequently, provided with notice that audit and warehouse withdrawal data were in issue.

206 The Director's draft order refers generally to "a supplier of retailer scanner data" throughout the provisions relating to retailer contracts. We have restricted our order to suppliers of retailer scanner data in the grocery or drug channels of distribution. One of the key premises of this application was that Nielsen had prevented entry into the market for the supply of scanner-based market tracking services by restricting access to scanner data produced by grocery and drug retailers, through exclusivity and inducements to exclusivity. There was no allegation and no evidence that Nielsen has exclusive arrangements in the mass merchandiser or other channels. We cannot prohibit Nielsen from doing this since no anti-competitive act has been alleged or proven. Since no submissions were made to us regarding the role of other channels once the exclusives are lifted from the grocery and drug channels, we do not have a basis to proceed under subsection 79(2).

207 With respect to the existing retailer contracts, we have prohibited Nielsen from enforcing the provisions in those contracts which restrict or preclude a retailer from supplying its scanner data and causal data necessary for the provision of a scanner-based market tracking service to someone other than Nielsen. It is somewhat more difficult to deal with the issue of inducements to exclusivity in the current contracts. The majority of Nielsen's contracts contain a single payment for the data and for exclusive access to them. The Director has not asked us to deal with the implicit inducements to exclusivity in the current retailer contracts and, indeed, it would be difficult to do so given the blended nature of the payments.

208 Once our order makes the existing exclusivity clauses unenforceable, it is not clear what will be the legal status of the payment terms and of the remainder of the contracts. This is a matter to be dealt with in other forums. We do recognize, however, two problems that may result from striking the exclusivity clauses without touching the current payments, with the result that Nielsen may choose, or may be required by contract law, to continue to make those payments to retailers.

209 The first problem is that while the retailers would be able to increase their revenues in the short run by selling their data to IRI while also accepting the current level of payments from Nielsen, they could choose to forgo the additional payments from IRI if they believe that dealing with IRI could reduce their earnings in the long run. The result would be at least some de facto exclusives. Yet, the Director has not asked for the payment clause to be struck. The Director and IRI appear confident that the retailers will respond positively to the financial incentives that IRI will offer. Under the circumstances, we have not gone beyond the requested relief.

210 The second problem is that Nielsen might have to continue its current level of payments, without receiving the benefits of exclusivity the payments were intended to secure, while its competitor makes payments at a lower level. We make no comment on whether or not this was a valid concern for the Tribunal to address as we received no submissions on the point. Counsel for Nielsen stated that his client's preference was that the Tribunal not attempt to deal with the payment clauses and we did not do so.

D. Manufacturer Contracts

211 Nielsen's contracts with manufacturers become germane in a situation where the sources of scanner data and causal data have been freed from exclusives and it is at least possible for another firm to become a supplier of scanner-based market tracking services. The new supplier must then find sufficient business to justify its investments in the data and in the infrastructure to process them and sell a market tracking service. We have determined that Nielsen's conduct in signing a number of its customers to contracts of three or more years constitutes an anti-competitive act. In lieu of prohibiting this conduct alone under subsection 79(1), we have decided that the existing circumstances in the market for the supply of scanner-based market tracking services warrant dealing with all Nielsen's customer contracts, whatever their term, under subsection 79(2). We do not believe that focusing on those customer contracts of three years or more only will likely restore competition in the market.

212 At this point, Nielsen, as the incumbent, has a clear advantage over a new entrant attempting to establish itself as a provider of market tracking services. If we dealt only with the contracts of three years or more in our order, that portion of the revenue base which is tied up in one- or two-year contracts, a significant portion, would remain in Nielsen's control. Nielsen would be in a better position than IRI to obtain a renewal of those contracts, as it is with all its current contracts, when they came due. Nielsen has had a long relationship with customers as the sole supplier of market tracking services. Nielsen holds the existing contracts and knows exactly when each contract is due to expire and can time its renewal efforts accordingly. The business subject to shorter term contracts must be made available for IRI to bid on, along with the business tied up in the longer term contracts, to increase the likelihood that it will be able to enter successfully. We have, therefore, returned all Nielsen's manufacturer contracts to the "evergreen" status that existed before Nielsen set out to sign customers to contracts of maximum length.

213 In the only prior contracts brought to our attention during the proceedings, customers could discontinue their purchases on eight months notice. We accept that eight months notice is necessary to allow Nielsen to make whatever adjustments are necessary when a customer decides to discontinue buying a particular service. Accordingly, our order provides that all existing customers have the option of discontinuing their purchases of scanner-based market tracking services from Nielsen on eight months notice. To prevent customers from being induced to continue with their contracts, the order also provides that the giving of notice will not result in the loss of discounts.

214 With respect to the other side of the coin, possible future manufacturer contracts, counsel for the Director confirmed that the Director's proposed draft order dealt only with the existing contracts. The Director's position was that it was not necessary to deal with future contracts in the order because once an order barring exclusives was issued IRI would be in a position to start marketing its product. Significantly, IRI itself is not certain that it will immediately have the credibility necessary to convince the manufacturers to wait several months and then give notice so that they can go with IRI once it is up and running. IRI fears that the manufacturers will not be willing to wait for IRI but will instead sign long-term contracts with Nielsen. Counsel for IRI suggested that the order provide that all manufacturer contracts entered into by Nielsen for 18 months following the date of the order be subject to termination, at the option of the manufacturer, on eight months notice. He admitted that he could not say for sure that IRI would be unable to enter the market without such a measure but argued that, given the proven Nielsen strategy of signing its customers to long-term contracts to keep IRI out and Nielsen's current position as the sole supplier, the Tribunal should err in favour of creating a favourable climate for entry.

215 It should be noted that no one was arguing that long-term manufacturer contracts should be forever barred. Once two suppliers are active in the market, such contracts will simply reflect bargaining between the supplier and the manufacturer and will have no detrimental competitive effect.

216 The Director does not adopt IRI's position based on an apparent belief that IRI will have instant credibility with manufacturers once our order issues, with the result that competitive conditions will prevail very quickly. We do not agree. We believe that, while IRI will have some credibility once the order issues, it will still be at a significant disadvantage vis-à-vis Nielsen in initially competing for customers. Over the months following the order, IRI's credibility will increase, if all goes well, and its disadvantage will decrease correspondingly. We agree with counsel for IRI that there is a distinct possibility that Nielsen could use IRI's initial disadvantage to tie up enough customers to cause IRI's attempt at entry to fail. In our view, this is a very significant concern.

217 On the other hand, if the Director turns out to be correct and an order relating to future contracts is proven unnecessary, the only harm that will occur is that manufacturers will have to wait some time before they can extract the full benefit of a long-term contract from Nielsen. We do not see that a provision relating to future manufacturer contracts causes any unnecessary hardship for Nielsen. Although Nielsen will not be free to offer longer-term contracts immediately, it will be able to meet competition from IRI by offering service and price benefits to its customers. This result is in accordance with the purpose of the order.

218 We note the argument of the respondent that the intervenor cannot seek "new" remedies not requested by the Director. We do not dispute the words of the Tribunal in *NutraSweet*:

In formulating an appropriate order the tribunal is of the view that it must confine itself essentially to the kind of orders requested by the Director in his original application with such modifications as may fairly be considered to have been in issue in the case. While other possible remedies were discussed during argument, no amendment was sought to the application in this regard. It is a matter of fairness that the respondent not now be faced with a remedy of which it had no formal notice. Further, although Tosoh [the intervenor] suggested various other remedies, it is not a party and cannot define the issues including that of the remedies being sought.⁹⁶

We are of the view, however, that all aspects of Nielsen's manufacturer contracts for scanner-based market tracking services have clearly been in issue since the outset. There is no question of unfairness to the respondent. IRI was granted leave to intervene to make representations in part because its involvement in this industry means that it has a unique perspective, different from that of the Director, that makes its representations particularly useful. In this instance, the Tribunal has been persuaded by those representations that the remedy sought by the Director is lacking in its treatment of manufacturer contracts. The Tribunal must maintain the flexibility to modify the remedies proposed to it in order to achieve an order that it believes will be effective. Since we are proceeding under subsection 79(2) regarding the manufacturer contracts, this means an order that in our opinion will "overcome the effects of the practice" in the market. We would be remiss, given the concerns expressed above, if we did not attempt to fashion an order which deals with those concerns. We also note that there were other remedies proposed by IRI that we refused to consider because they go beyond the matters in issue.

219 Accordingly, we have applied the eight month notice provision in our order not only to existing manufacturer contracts but also to manufacturer contracts entered into by Nielsen during the 18 months following the order.

E. Historical Scanner Data

(1) Analysis and Conclusions

220 In order to enter the market for the supply of scanner-based market tracking services in Canada, a potential competitor of Nielsen needs not only access to current and future scanner data but also to historical scanner data. In our view, an order for the provision of historical data by Nielsen where the data are not available directly from the retailers is essential to restore competition in the market. The Director has asked for a clause that would require Nielsen to provide 15 months of historical data to IRI when a retailer has not stored the historical data and the retailer asks Nielsen to provide it to IRI. Manufacturers who buy these market tracking services testified that at least a year of historical data are necessary in order for them to account for seasonal fluctuations in the sales of their products. Since IRI is willing to pay retailers for 15 months of data, we have no difficulty in accepting that historical data covering this length of time are required.

221 In wording this portion of our order, we are concerned about ensuring that its terms do not unnecessarily cause hardship to Nielsen. We note that there was no dispute that historical scanner data are required by a supplier of a scanner-based market tracking service. We also note that there is nothing in the proposed order that would give IRI a "free ride" at Nielsen's expense. IRI will have to compensate the retailers for any historical data that it obtains from them or from Nielsen with their consent.

222 Nielsen expressed two concerns regarding the provision of historical data to IRI. At the outset, we note that this situation will only arise if the retailer itself has not retained its own historical data and the retailer directs Nielsen to provide the retailer's data to IRI.

223 Nielsen's first concern is that it should not be required to give its "work product" to IRI or to anyone else. Once Nielsen receives the tapes of scanner data from the retailers, the data undergo further processing or "cleaning up". Therefore, the historical data which are available now may not be raw data from the retailers but rather may be "clean" data. A Nielsen document describes in detail the steps that are taken during the "scanning data input process" upon receipt of the retailer scanner data.⁹⁷ These include data receipt, data usability, coding, price checking and quantity checking.

224 Nielsen's second concern is that giving copies of the tapes received from the retailers to IRI would result in disclosure of its sample design for that retailer. Nielsen regards its sample design as proprietary and a "significant trade secret". The stores whose data are included on the tape are those stores that constitute Nielsen's representative sample for that retailer. This was confirmed by the representatives from Overwaitea and Provigo. The experience of A & P in the United States reveals that the sample design for a particular retailer may be different for Nielsen and IRI. Gerald Good testified that A & P does not send identical tapes to the two service providers in the United States.

225 We agree that any documented costs incurred by Nielsen in cleaning up the data it received from the retailers should be shared by IRI. These costs are almost certain to be minor relative to the total costs of providing a scanner-based market tracking service. In our view, it is reasonable for IRI to pay 50 percent of the documented costs Nielsen incurred in cleaning up the data in question. As originally proposed by the Director, IRI remains fully responsible for 100 percent of any additional costs, such as copying tapes, that Nielsen may incur solely in the process of providing the data to IRI.

226 It is highly unlikely that Nielsen's entire sampling frame will end up being revealed to IRI, although portions with respect to particular retailers may be. The entire sampling frame will not be disclosed unless none of the retailers have maintained historical data. The evidence before us was that at least some retailers routinely keep data for two years. In any event, we do not see how IRI could gain any competitive advantage by knowing the identity of some stores in the Nielsen sample. Any possible advantage it might acquire would be reciprocal since Nielsen would also know that IRI was forced to include the same stores in its sample.

227 Based on its record in the United States, IRI clearly is capable of formulating its own sampling frame and, indeed, its president disclaims any desire to learn what Nielsen's sampling frame is. Moreover, the uncontradicted evidence of Mr. Daboll of IRI is that it should be possible for Nielsen to mask its sample design when transmitting the data. To allow for the possibility that Nielsen may choose to do so and that some costs would be entailed we consider that it would be appropriate to provide for recovery of those costs in the order.

228 A final matter with regard to this issue relates to the point in time from which to measure the 15 months of historical data that must be provided. IRI's position is that it will take six to nine months after a favourable Tribunal order for IRI to complete the steps necessary for its entry into the Canadian market. We have concluded that the order should be drafted to allow for a delay of up to nine months while IRI completes its preparations. We regard nine months as reasonable in the circumstances. Therefore, the order should provide that IRI can get 15 months historical data from the date of its request to Nielsen, if data are unavailable from the retailer, as long as the request is made within nine months of the order.

(2) Preliminary Draft Order

229 Counsel are asked for their comments on the following proposed provision:

Historical Scanner Data

(1) This paragraph shall have effect for nine months from the date of this order.

(2) Subject to subparagraph (3), upon the request of IRI and if directed to do so by a supplier of retailer scanner data which has not retained its own historical scanner data for the relevant period, the respondent shall provide to IRI the historical scanner data which it has for that supplier of retailer scanner data for the fifteen months prior to the request by IRI, whether the data is in the form originally received from the retailer or otherwise. The respondent shall be entitled to take reasonable steps to clean up its historical data in order to protect its sample design and related proprietary data.

(3) The respondent need not comply with the request by IRI if IRI does not agree:

(a) to pay 50 percent of any reasonable, documented costs already incurred by the respondent in cleaning up the historical scanner data where the data is no longer in its original form;

(b) to pay 100 percent of the respondent's reasonable expenses of providing the data to IRI; and

(c) to pay 100 percent of any reasonable, documented costs incurred by the respondent in manipulating or reformatting the historical scanner data in order to mask its sample design prior to providing the data to IRI.

(4) In the event of a disagreement regarding the terms of this paragraph, the Director or the respondent may apply to the Tribunal for further directions.

FOR THESE REASONS, the Tribunal makes the order attached under separate cover. [Appendices A and B.]

Application granted.

APPENDIX A — Order

UPON APPLICATION by the Director of Investigation and Research ("Director") for an order under section 79 of the *Competition Act*, R.S.C. 1985, c. C-34;

AND ON HEARING the evidence and the submissions of counsel for the parties and the intervenors;

AND UPON CONSIDERING THAT the intervenor, Information Resources, Inc. ("IRI") has undertaken to the Tribunal that it will not enter into any exclusive contracts for the retailer scanner data of retailers in Canada if the respondent is so prohibited;

AND FOR THE REASONS issued on this date under separate cover;

THE TRIBUNAL ORDERS THAT:

Definitions

1. In this order,

(a) "Retailer" means a grocery or drug retailer only;

(b) "Retailer scanner data" means product identifying information provided on the bar-coded label affixed by a manufacturer to products as well as data input by a retailer of such products, which may include store identification, time of purchase and price, all of which is recorded by the retailer's scanning apparatus;

(c) "Scanner-based" means based in whole or in substantial part on scanner data; and

(d) "Market tracking service" means a service used to monitor the progress and competitive position of a product over time.

Retailer Contracts

2. (1) The respondent shall not enter into a contract which precludes or restricts a supplier of retailer scanner data from providing a supplier or potential supplier of a scanner-based market tracking service with access to scanner data or causal data necessary for the provision of that service.

(2) The respondent shall not offer an inducement to a supplier of retailer scanner data to restrict access by a supplier or potential supplier of a scanner-based market tracking service to scanner data or causal data necessary for the provision of that service.

(3) Without limiting the generality of subparagraphs (1) and (2), the respondent shall not enter into a contract with a supplier of retailer scanner data which prescribes or limits the terms upon which the supplier of retailer scanner data may make its scanner data or causal data necessary for the provision of a scanner-based market tracking service available to a supplier or potential supplier of that service.

(4) For a period of 24 months from the date of this order, the respondent shall not enter into a contract with a supplier of retailer scanner data which requires the supplier of retailer scanner data, if it makes its data available to a supplier or potential supplier of a scanner-based market tracking service on more favourable terms, to make those terms available to the respondent.

3. (1) The respondent shall not enforce provisions in the respondent's existing contracts which preclude or restrict a supplier of retailer scanner data from providing access to scanner data or causal data necessary for the provision of a scanner-based market tracking service to a supplier or potential supplier of that service.

(2) Without limiting the generality of subparagraph (1), the respondent shall not enforce the following provisions in its existing contracts:

(a) "exclusivity" provisions which preclude or restrict a supplier of retailer scanner data from making scanner data or causal data necessary for the provision of a scanner-based market tracking service available to a supplier or potential supplier of that service;

(b) "preferred supplier status" provisions which preclude or restrict a supplier of retailer scanner data from making scanner data or causal data necessary for the provision of a scanner-based market tracking service available to a supplier or potential supplier of that service, or which provide for lower payments by the respondent if the data are made available to a supplier or potential supplier of that service; and

(c) provisions which prevent a supplier of retailer scanner data from making scanner data or causal data necessary for the provision of a scanner-based market tracking service available to a supplier or potential supplier of that service on terms as or more favourable than those under which it is made available to the respondent, or which require the supplier of retailer scanner data, if it makes its data available to a supplier or potential supplier of a scanner-based market tracking service on more favorable terms, to make those terms available to the respondent.

Manufacturer Contracts

4. (1) The respondent shall not enforce any provisions in its existing contracts for the supply of scanner-based market tracking services which

(a) prevent the customer from giving notice of termination during any "minimum commitment period";

(b) require the customer to give more than eight months notice; or

(c) require the customer to pay a penalty to lose a discount for early termination of its contract with the respondent.

(2) For a period of 18 months from the date of this order, the respondent shall not enter into any contracts for the supply of scanner-based market tracking services which

(a) prevent the customer from giving notice of termination during any "minimum commitment period";

(b) require the customer to give more than eight months notice; or

(c) require the customer to pay a penalty or lose a discount for early termination of its contract with the respondent.

Historical Scanner Data

5. The terms on which historical scanner data will be provided to IRI shall be established by order following further argument by counsel on the draft paragraph included in the reasons and shall be incorporated into this order.

General

6. The respondent shall forthwith deliver copies of this order to all persons to whom it presently supplies scanner-based market tracking services and to all persons from whom it presently obtains scanner data.

7. (1) For a period of two years from the date of this order, the respondent shall, upon the request of the Director, provide copies of

(a) any contract or proposal pertaining to the supply of retailer scanner data or causal data necessary for the provision of a scanner-based market tracking service, and

(b) any contract, service request, letter of intent or proposal pertaining to the provision of scanner-based market tracking services by the respondent,

which may be required by the Director for purposes of monitoring compliance with this order.

(2) The Director shall treat the copies of documents obtained pursuant to this section as confidential.

8. This order applies to the successors and assigns of the respondent.

9. In the event of a dispute, the Director or the respondent may apply to the Tribunal for a further order interpreting any of the provisions of this order.

DATED at Ottawa, this 30th day of August, 1995.

SIGNED on behalf of the Tribunal by the presiding judicial member.

(s) W.P. McKeown

W.P. McKeown

APPENDIX B — Order Amending Order Dated August 30, 1995

FURTHER TO the Reasons for Order dated August 30, 1995 and the proposed provision regarding historical scanner data set out in those reasons;

AND FURTHER TO paragraph 5 of the Order dated August 30, 1995;

AND ON READING the submissions of the parties and the intervenors and noting their request that the matter be disposed of without further appearance before the Tribunal;

THE TRIBUNAL ORDERS THAT:

Paragraph 5 of the Order dated August 30, 1995 shall be replaced by the following, which shall be incorporated into that order and shall be effective as of August 30, 1995:

5. (1) This paragraph shall have effect for nine months from the date of this order.

(2) Subject to subparagraph (3), upon the request of a supplier or potential supplier of a scanner-based market tracking service, including IRI, and if directed to do so by a supplier of retailer scanner data which has not retained its own historical scanner data for the relevant period, the respondent shall provide to the supplier or potential supplier of a scanner-based market tracking service the historical scanner data which it has for that supplier of retailer scanner data for the fifteen months prior to the request by the supplier or potential supplier of the service, whether the data are in the form originally

received from the retailer or otherwise. The respondent shall be entitled to take reasonable steps to clean up its historical data in order to protect its sample design and related proprietary data.

(3) The respondent need not comply with the request by a supplier or potential supplier of a scanner-based market tracking service if the supplier or potential supplier of the service does not agree:

(a) to pay 50 percent, if only one request is received for the data, or a proportional share, if more than one request is received for the data, of any reasonable, documented costs already incurred by the respondent in cleaning up the historical scanner data where the data are no longer in their original form;

(b) to pay 100 percent of the respondent's reasonable expenses of providing the data to the supplier or potential supplier of the service; and

(c) to pay 100 percent, if only one request is received for the data, or a proportional share, if more than one request is received for the data, of any reasonable, documented costs incurred by the respondent in manipulating or reformatting the historical scanner data in order to mask its sample design prior to providing the data to the supplier or potential supplier of the service.

(4) In the event of a disagreement regarding the terms of this paragraph, the Director or the respondent may apply to the Tribunal for further directions.

DATED at Ottawa, this 26th day of September, 1995.

SIGNED on behalf of the Tribunal by the presiding judicial member.

(s) W.P. McKeown

W.P. McKeown

Footnotes

1 R.S.C. 1985, c. C-34.

2 (1990), 32 C.P.R. (3d) 1, [1990] C.C.T.D. No. 17 Q(L).

3 Consumer and Corporate Affairs Canada, Competition Law Amendments: A Guide (Supply and Services Canada, December 1985) at 21.

4 3d ed. (Oxford: Clarendon Press, 1973) at 345, 2067.

5 Exhibit J-8, tab 331 at 346.

6 Exhibit J-8, tab 330; Exhibit J-7, tab 272 at 19.

7 (1992), 40 C.P.R. (3d) 289 at 325, [1992] C.C.T.D. No. 1 (QL) (Competition Trib.)

8 *Supra*, note 2 at 28.

9 *Ibid.* at 10.

10 *Ibid.*

11 *Ibid.* at 31-32

- 12 (1953), 20 C.P.R. 107, 109 C.C.C. 1, 18 C.R. 357 (Que. C.A.).
- 13 *NutraSweet*, *supra*, note 2 at 32-33.
- 14 *Ibid.* at 33.
- 15 *Ibid.*
- 16 *Supra*, note 7 at 295.
- 17 (1976), 15 O.R. (2d) 360 (H.C.).
- 18 *Ibid.* at 371.
- 19 *Ibid.* at 372.
- 20 *Ibid.* at 406ff.
- 21 Canada, House of Commons, Minutes of Proceedings and Evidence of the Legislative Committee on Bill C-91 (April 29, 1986) at 3:8.
- 22 R.S.C. 1970, c. C-23.
- 23 *Competition Law Amendments: A Guide*, *supra*, note 3 at 22.
- 24 *Ibid.*
- 25 R.J. Roberts, "Abuse of Dominant Position: From Bork to Bain and Back Again (But This Time With Extraterritoriality)" in R.S. Khemani & W.T. Stanbury, *Canadian Competition Law and Policy at the Centenary* (Halifax: Institute for Research on Public Policy, 1991) 337 at 344-48.
- 26 *Ibid.* at 347.
- 27 *Ibid.* at 345.
- 28 For example, where a product had both a North American and a European market, a European firm could be abusing its dominant position in Europe to the detriment of a Canadian firm which also operated there. If paragraph (a) referred to control of a "market", the Director could bring an application to the Tribunal to deal with the European situation.
- 29 It was confirmed that Valdi and Loeb stores do not scan. Valdi is now only open for business on a limited basis, having gone bankrupt. The names of two other retailers (Knob Hill Farms and Fortino's) that may not scan were also mentioned. There was no indication that these were particularly large or important retailers.
- 30 NFIC tracked drug products in food stores.
- 31 Confidential Exhibit CJ-10, tab 443.
- 32 Based on March 1994 documentation: Confidential Exhibit CJ-10, tab 439.
- 33 Regional breakdowns are not available.
- 34 Based on Confidential Exhibit CA-41.
- 35 Transcript at 7:944-45 (25 October 1994).
- 36 Confidential Exhibit CR-94, tab 3 at Appendix IV.

- 37 The first definition for "base" set out in *The Concise Oxford Dictionary*, 7th ed. (Oxford: Clarendon Press, 1982) at 72, reads "that on which anything stands or depends; support, foundation, (lit. or fig.); principle, starting-point; main or important ingredient of mixture;"
- 38 Unless otherwise specified, "MarketTrack" means MarketTrack Grocery, the primary grocery product tracking service and not any of the more specialized MarketTrack services.
- 39 Exhibit A-70 at 9.
- 40 *Supra*, note 2 at 10, quoted at page 12 of these reasons.
- 41 Including Campbell Soups (soups, spaghetti sauce, frozen dinners, vegetable juice), E.D. Smith (pie fillings, jams, spreads, sauces, ketchup), Proctor & Gamble (wide range of products from soups and dish detergents to stomach relievers to frosting), Coco Cola Foods (juice and juice beverages), Gerber (baby food, baby care products, baby apparel), Nestlé (chocolate bars, boxed chocolates, coffee and whitener, pet food, infant formula, Carnation milk, iced tea mix, frozen entrées, canned pasta and beans), Hershey (chocolate bars, boxed chocolates, candy, peanuts, chocolate chips) and Lever (laundry detergents, fabric conditioners, dishwashing liquids and powders, soap, household cleansers).
- 42 Mr. Sark, formerly of Hershey, said he was concerned that scanner data only told him how much of his product was sold and that he no longer knew how much was in distribution but not sold, and that no inventory measurement was provided with scanning.
- 43 Confidential Exhibit CA-26.
- 44 Transcript at 7:950 (25 October 1994).
- 45 Transcript at 8:955-57 (26 October 1994).
- 46 Transcript at 7:931 (25 October 1994)
- 47 Transcript at 16:1685-86 (10 April 1995).
- 48 Transcript at 17:1882-83 (11 April 1995).
- 49 Exhibit J-5, tab 213 at 404.
- 50 Transcript of examination for discovery of S. Churchill (16 August 1994) at 98-99.
- 51 Confidential Exhibit CA-41, table entitled *Per Cent of Kilograms*.
- 52 Transcript at 8:1001 (26 October 1994).
- 53 Transcript at 8:1032-33 (26 October 1994).
- 54 Transcript at 20:2259-60 (18 April 1995).
- 55 Exhibit J-8, tab 321 at 8.
- 56 Transcript at 5:647, 666-67 (21 October 1994).
- 57 See transcript at 5:617-18 (21 October 1994); transcript at 20:2225 (18 April 1995); Confidential Exhibit CJ-1, tab 25 at s. VII.
- 58 Confidential Exhibit CJ-6, tab 260.
- 59 Named in reference to the decision of the Supreme Court of the United States in *United States v. E.I. duPont de Nemours & Co.*, 351 U.S. 377 (1956).

- 60 *Supra*, note 2 at 28.
- 61 *Ibid.*
- 62 *Supra*, note 7 at 325.
- 63 Exhibit A-51.
- 64 *Supra*, note 2 at 35.
- 65 *NutraSweet*, *supra*, note 2 at 34; *Laidlaw*, *supra*, note 7 at 331-32.
- 66 *Laidlaw*, *ibid.* at 333. See, to the same effect, *NutraSweet*, *ibid.* at 34.
- 67 *Laidlaw*, *ibid.*
- 68 *Ibid.* at 342-43.
- 69 Exhibit J-6, tab 237 at 165.
- 70 Confidential Exhibit CJ-6, tab 240 at 219.
- 71 Confidential Exhibit, CJ-6, tab 246 at 362.
- 72 Neither Mr. Fulgoni nor Peter Daboll of IRI could recall whether a second retailer asked them for both types of proposals in 1994, although they did acknowledge that it was possible.
- 73 Confidential Exhibit CJ-5, tab 210.
- 74 Confidential Exhibit CJ-7, tabs 275 and 276.
- 75 Exhibit J-5, tab 195 at 259.
- 76 Confidential Exhibit CJ-6, tab 252 at 391.
- 77 Confidential Exhibit CJ-6, tab 269 at 519.
- 78 Exhibit J-6, tab 270 at 529-30, attachments (confidential).
- 79 Confidential Exhibit CI-80.
- 80 Confidential Exhibit CR-95.
- 81 *Supra*, note 2 at 47.
- 82 *Laidlaw*, *supra*, note 7 at 330; *Canada (Director of Investigation & Research) v. Southam Inc.* (1992), 43 C.P.R. (3d) 161 at 280, [1992] C.C.T.D. No.7 (QL) (Competition Tribunal).
- 83 Exhibit J-8, tab 311 at 61.
- 84 Exhibit J-8, tab 313.
- 85 Transcript at 4:517 (20 October 1994).
- 86 The Australian retail market is even more concentrated than its Canadian counterpart, with the top two companies accounting for over 50 per cent of the business.

- 87 Confidential Exhibit CJ-11, tab 482.
- 88 Confidential transcript at 9:512 (27 October 1994).
- 89 Confidential transcript at 4:110 (20 October 1994).
- 90 It might be inferred from the comments of the IRI executives that prices to retailers might rise following the elimination of exclusives with possible negative implications for product prices, however, we are persuaded on the basis of other evidence that under a free market this is a highly unlikely result.
- 91 Sales of key account data are not broken down by data collection methodology in Nielsen's documents, therefore, the total shown overstates earnings from scanner-based key account sales.
- 92 Based on Confidential Exhibit CR-95, tab 4A.
- 93 Confidential Exhibit CJ-9, tab 362.
- 94 Based on the signed retailer contracts entered in evidence and Confidential Exhibit CJ-10, tab 440.
- 95 Confidential Exhibit CJ-9, tab 363.
- 96 *NutraSweet*, *supra*, note 2 at 57-58.
- 97 Confidential Exhibit CJ-11, tab 487 at 240-41.

Tab 3

Most Negative Treatment: Distinguished

Most Recent Distinguished: [Cinemas Guzzo Inc. c. Canada \(Procureur général\)](#) | 2005 FC 691, 2005 CF 691, 2005 CarswellNat 1349, 2005 CarswellNat 5321, 47 C.P.R. (4th) 250, 277 F.T.R. 39 (Eng.), 147 A.C.W.S. (3d) 985 | (F.C., May 13, 2005)

1997 CarswellNat 2811
Competition Tribunal

Canada (Director of Investigation & Research) v. Warner Music Canada Ltd.

1997 CarswellNat 2811, 43 B.L.R. (2d) 93, 78 C.P.R. (3d) 321

In the Matter of an application by the Director of Investigation and Research pursuant to section 75 of the *Competition Act*, R.S.C. 1985, c. C-34;

In the Matter of an inquiry relating to the refusal of Warner Music Canada Ltd. and its affiliates, Warner Music Group Inc. and WEA International Inc., to deal with BMG Direct Ltd.

The Director of Investigation and Research, Applicant and Warner Music Canada Ltd., Warner Music Group Inc., WEA International Inc., Respondents

McKeown, Simpson JJ., Bolton Member

Heard: December 4 and 5, 1997

Judgment: December 18, 1997

Docket: CT-97/3

Counsel: *D. Martin Low, Q.C.* and *Duane Schippers*, for the Applicant.

John F. Rook, Q.C., *David Stratias* and *Mahmud Jamal*, for the Respondents.

Subject: Intellectual Property; Corporate and Commercial; Property; Civil Practice and Procedure

Table of Authorities

Cases considered by *McKeown J.*:

Berneche v. R., (sub nom. *Berneche v. Canada*) [1991] 3 F.C. 383, (sub nom. *Berneche v. Canada*) 133 N.R. 232, (sub nom. *Berneche v. Canada*) 52 F.T.R. 144 (note) (Fed. C.A.) — applied

Canada (Director of Investigation & Research) v. Imperial Oil Ltd. (November 10, 1994), Doc. CT-89/3 (Competition Trib.) — applied

Canada (Director of Investigation & Research) v. Tele-Direct (Publications) Inc., 73 C.P.R. (3d) 1 (Competition Trib.) — applied

Statutes considered:

Competition Act, R.S.C. 1985, c. C-34

s. 31 — considered

s. 32 — considered

s. 75 — pursuant to

s. 75(1)(a) — considered

s. 75(1)(b) — considered

s. 75(1)(c) — considered

s. 75(1)(d) — considered

s. 79 — considered

s. 79(5) — considered

Copyright Act, R.S.C. 1985, c. C-42

Generally — considered

s. 3 — considered

s. 5 — considered

s. 5(1) — considered

Federal Court Act, R.S.C. 1985, c. F-7

s. 18.3 [en. 1990, c. 8, s. 5] — considered

s. 28(2) — considered

Trade-marks Act, R.S.C. 1985, c. T-13

Generally — referred to

Rules considered:

Competition Tribunal Rules, SOR/94-290

Generally — referred to

Federal Court Rules, C.R.C. 1978, c. 663

Generally — considered

s. 419 — considered

s. 474 — considered

Words and phrases considered

product

. . . the licences are not a product as that term is used in section 75 of the Act, [Competition Act, R.S.C. 1985, c. C-34], because on a sensible reading section 75 does not apply to the facts of this case. Although a copyright licence can be a product under the Act, it is clear that the word "product" is not used in isolation in section 75, but must be read in context. The requirements in section 75 that there be an "ample supply" of a "product" and usual trade terms for a product show that the exclusive legal rights over intellectual property cannot be a "product" — there cannot be an "ample supply" of

legal rights over intellectual property which are exclusive by their very nature and there cannot be usual trade terms when licences may be withheld.

MOTION by record company to strike application made by Director of Investigation and Research under the *Competition Act*.

The judgment of the court was delivered by McKeown J.:

I. Introduction

1 The Director brought an application alleging that the respondents' refusal to grant copyright licences to make sound recordings from their master recordings to a company, BMG (Canada), which needs such licences to compete in the mail order record club business in Canada, contravenes section 75 of the *Competition Act*. The Director alleged no anti-competitive objectives nor that the existing licences include any anti-competitive provisions. The Director in his proposed order was prepared to have BMG (Canada) obtain the licences on the usual trade terms which were to be at least as favourable as the existing licences to Columbia House (Canada), a company in which one of the respondents holds a 50 percent partnership interest. The respondents moved to strike out the Director's application.

2 The issue is whether, in the circumstances, the Tribunal has jurisdiction under section 75 to hear the application.

II. Background

(a) The Parties

3 The three respondents described hereafter will be referred to collectively as the "respondents". The business of the respondents and their affiliates includes contracting with a wide variety of artists to record their performances on Warner master recordings. These master recordings are then used to manufacture sound recordings of various types including tapes, compact disks and records.

4 The respondent Warner Music Canada Ltd. ("Warner Canada") is an Ontario corporation which has its head office in Scarborough, Ontario. It has, *inter alia*, the right to grant licences to manufacture, distribute and sell in Canada sound recordings of performances by Canadian artists which have been recorded on Warner master recordings.

5 The respondent WEA International Inc. ("WEA (U.S.)") is a Delaware corporation which has its head office in New York City. It has, *inter alia*, the right to grant licences to manufacture, distribute and sell in Canada sound recordings of performances which have been recorded on Warner master recordings by non-Canadian artists.

6 The respondent Warner Music Group Inc. ("Warner Music (U.S.)") is a Delaware corporation which has its head office in New York City. It is involved in the business of managing companies affiliated with Warner Communications Inc., including the respondents Warner Canada and WEA (U.S.). Warner Music (U.S.) is alleged to be the party responsible for negotiating licences granted by Warner Canada and WEA (U.S.).

7 The Columbia House Company in Canada ("Columbia House Canada") is an equal partnership of Warner Canada and Sony Music Entertainment (Canada) Inc., and is located in Scarborough, Ontario. It operates a mail-order record club business throughout Canada which offers its customers sound recordings in most music categories.

8 BMG Direct Ltd. ("BMG (Canada)") is a wholly-owned subsidiary of BMG Direct Marketing Inc. ("BMG (U.S.)") and is located in Mississauga, Ontario. It commenced a national mail-order record club business in Canada in December 1994. With the entry of BMG (Canada), Columbia House (Canada) ceased to be the only mail-order record club in Canada offering sound recordings in most music categories.

(b) The Director's Application

9 The Director of Investigation and Research ("Director") made the application to the Competition Tribunal ("Tribunal") pursuant to section 75 of the *Competition Act* ("Act").¹

10 In the application, the Director alleges that, contrary to section 75 of the Act, the respondents have refused to deal with BMG (Canada) by refusing to grant it licences to make sound recordings from Warner master recordings. The Director alleges that BMG (Canada) needs such licences in order to compete in the mail-order record club business in Canada. However, the Director does not allege that the respondents' conduct in refusing to grant licences is motivated by anti-competitive objectives, and does not allege that the respondents' existing licences include anti-competitive provisions.

11 In the application, the Director seeks an order from the Tribunal to compel the respondents to issue licences to BMG (Canada). The order sought in paragraph 67 of the application requires that:

(i) the Respondents accept BMG Direct Ltd. ("BMG") as a customer on usual trade terms for the supply of licences to manufacture, advertise, distribute and sell sound recordings made from master recordings owned or controlled by the Respondents or any of their affiliates;

(ii) the terms of the licences sought in (i) above be at least as favourable in all respects as the terms of any comparable licence or licences to The Columbia House Company in Canada ("CHC"). For greater certainty, the licences sought in (i) above shall provide BMG with the right to at least an equal number and variety of Warner master recordings as are supplied to CHC by the Respondents or any of their affiliates;

(iii) the licences referred to above be supplied within 30 days of the issuance of the Tribunal's Order; and

(iv) such further or other Order as the Tribunal may consider appropriate.

III. The Present Motion

12 The respondents' motion is to strike out the Director's application against all the respondents on the basis that section 75 of the Act does not give the Tribunal jurisdiction to compel the respondents to issue licences for the manufacture, distribution and sale of sound recordings of the performances on the Warner master recordings. The respondents also take the position that the Tribunal does not have jurisdiction over WEA (U.S.) and Warner Music (U.S.), that the Act does not have extraterritorial application, that effective service on WEA (U.S.) and Warner Music (U.S.) has not been accomplished, that this motion is timely and that this is a proper case for a reference to the Federal Court of Appeal under sections 18.3 and 28(2) of the *Federal Court Act*.²

13 The Director opposes the motion saying that the Tribunal has jurisdiction to order a licence under section 75, that the Tribunal has jurisdiction over WEA (U.S.) and Warner Music (U.S.), that the question of the extraterritoriality of the Act is not in issue since the Director is only seeking redress in respect of the respondents' business activities in Canada, that proper service has been effected, that this motion is premature and that a reference to the Federal Court of Appeal would also be premature.

14 At the hearing of the motion, the Tribunal heard the jurisdictional argument and arguments about the prematurity of this motion and the extraterritorial application of the Act. The parties maintained their positions in respect of a reference to the Federal Court of Appeal but did not argue the issue, preferring to rely on their memoranda.

15 The Tribunal adjourned *sine die* without hearing submissions on the other issues. As these reasons disclose, the Tribunal has decided that the motion is not premature and that a reference to the Federal Court of Appeal will not be ordered. The Tribunal has also concluded that it lacks jurisdiction to grant the relief sought by the Director in his application. For this reason, the issues of extraterritoriality, proper service and jurisdiction over the person will not be addressed.

IV. The Facts

16 For the purpose of this motion, the Tribunal relies on the following undisputed facts:

(1) WEA (U.S.) has a licence agreement with Columbia House (Canada) entitling Columbia House (Canada) to manufacture, distribute and sell in Canada sound recordings made from Warner master recordings of performances by non-Canadian artists.

(2) Warner Canada has licensed Columbia House (Canada) to manufacture, distribute and sell in Canada sound recordings made from Warner master recordings of performances by Canadian artists.

(3) When BMG (Canada) commenced its direct mail-order record club business in Canada, it had obtained reproduction, distribution and sales licences for a number of record labels, but it had not reached an agreement with Warner Music (U.S.) respecting Warner Canada and WEA (U.S.) reproduction and sales licences, and no such agreement has since been reached. It is the respondents' refusal to grant these licences on terms similar to those found in the licences to Columbia House (Canada) that triggered the Director's application. There is no issue that BMG (Canada) can purchase the respondents' manufactured CDS, tapes and records at the wholesale level. However, the prices at wholesale are too high to enable BMG (Canada) to compete in the mail-order record club business. To compete in that business, BMG (Canada) must obtain the cost savings that are possible if it manufactures the Warner sound recordings itself under licences from the respondents.

(4) BMG (Canada) is unable to offer its customers the broad range of sound recordings which is available through Columbia House (Canada), because only Columbia House (Canada) carries sound recordings of performances by artists on Warner master recordings.

(5) The respondents concede, for the purpose of this motion, that if BMG (Canada) is unable to obtain licences for the reproduction and sale of sound recordings made from Warner master recordings, it will be substantially affected and will be unable to continue its mail-order record club business in Canada.

V. Issue and Questions

17 The issue is whether the Tribunal has jurisdiction, pursuant to section 75 of the Act, to make an order compelling the respondents to licence BMG (Canada) to manufacture, distribute and sell sound recordings of performances on Warner master recordings. It is worth emphasizing that the Tribunal was only asked to order that a compulsory license be granted to BMG (Canada) where the respondents refused to do so upon BMG (Canada)'s request. The Tribunal was not asked to find that a physical product was in short supply in the market due to a refusal to grant a copyright licence.

18 Section 75 of the Act reads as follows:

75. (1) Where, on application by the Director, the Tribunal finds that

- (a) a person is substantially affected in his business or is precluded from carrying on business due to his inability to obtain adequate supplies of a product anywhere in a market on usual trade terms,
- (b) the person referred to in paragraph (a) is unable to obtain adequate supplies of the product because of insufficient competition among suppliers of the product in the market,
- (c) the person referred to in paragraph (a) is willing and able to meet the usual trade terms of the supplier or suppliers of the product, and
- (d) the product is in ample supply,

the Tribunal may order that one or more suppliers of the product in the market accept the person as a customer within a specified time on usual trade terms unless, within the specified time, in the case of an article, any customs duties on the article are removed, reduced or remitted and the effect of the removal, reduction or remission is to place the person on an equal footing with other persons who are able to obtain adequate supplies of the article in Canada.

(2) For the purposes of this section, an article is not a separate product in a market only because it is differentiated from other articles in its class by a trade-mark, proprietary name or the like, unless the article so differentiated occupies such a dominant position in that market as to substantially affect the ability of a person to carry on business in that class of articles unless that person has access to the article so differentiated.

(3) For the purposes of this section, the expression "trade terms" means terms in respect of payment, units of purchase and reasonable technical and servicing requirements.

The issue raises the following questions, which will be discussed in turn:

- (1) What is the nature of the respondents' intellectual property interest in the Warner master recordings?
- (2) Could a copyright right be a "product" pursuant to the definitions in section 2 of the Act?
- (3) Is it reasonable to conclude that a licence is a "product" as that term is used in section 75 of the Act?
- (4) Does the Tribunal have sufficient evidence to decide the issue on this motion?

VI. Discussion

19 Counsel for the respondents indicated that he would be focusing on the respondents' copyright rights in the Warner master recordings for the purposes of this motion, although he mentioned in passing that other intellectual property rights also exist

20 The Director did not dispute that the respondents hold Canadian copyright in the Warner master recordings which are the subject of the application. Even so, counsel for the respondents made detailed submissions which satisfied the Tribunal that, under the *Copyright Act*,³ the respondents have the exclusive right to reproduce musical works and to make the contrivances (i.e., records, tapes, CDS, etc.) for the performance of musical works. In particular, section 3 of the *Copyright Act* defines copyright as the sole right to produce or reproduce the work or any substantial part thereof in any material form whatsoever, and, for the purposes of this motion, the musical works are subject to copyright and the copyright includes the right to make a sound recording as provided under section 3. Copyright subsists in Canada for Warner Canada by reason of subsection 5(1) of the *Copyright Act* and in Canada for WEA by reason of the treaty provisions referred to in section 5. Since 1993, there has been no provision in the *Copyright Act* which limits the copyright holder's sole and exclusive right to licence. These conclusions mean that as a matter of copyright law the respondents have the right to refuse to licence the Warner master recordings to BMG (Canada).

21 The Director's counsel submitted that the definitions of "article" and "product" in section 2 of the Act are broad enough to encompass a copyright right as a form of personal property. Counsel for the respondents agreed and the Tribunal accepts this submission. However, this conclusion does not answer the next question, which is whether the licences are products within the meaning of section 75 of the Act.

22 The Director's position is that the respondents' manufacturing, distribution and sales licences are the "product" for the purpose of section 75 and that the market for the purpose of the section is Canada. The Director says that, given these definitions and, in the absence of language which excludes the recognition of intellectual property rights in section 75, the section clearly applies to the facts of this case.

23 With regard to paragraph 75(1)(a), the Director notes that the respondents do not dispute, for the purposes of this motion, that BMG (Canada) is being substantially affected in its business by reason of their refusal to grant it licences to manufacture, distribute and sell sound recordings of the Canadian and non-Canadian performances on the Warner master recordings. The Director further says that paragraph 75(1)(b) applies because BMG (Canada)'s inability to obtain adequate supplies is caused by insufficient competition among suppliers of the product in the market, i.e., among Warner Canada, WEA (U.S.) and Warner Music (U.S.). Further, with regard to paragraph 75(1)(c), the Director acknowledges that there is only one supplier of each licence (Warner Canada and WEA (U.S.)) and that the only two licences in place in Canada are the two respondents' licences

to Columbia House (Canada). However, the Director says that the Tribunal may have regard to the terms of licences granted by other comparable licensors throughout North America in order to reach a conclusion about what might be usual trade terms in Canada if additional licences were to be granted by the respondents. Finally, on the subject of paragraph 75(1)(d), the Director submits in paragraph 16 of his application that, because the two licences to Columbia House (Canada) are nonexclusive, there could be further licences if the respondents were willing to grant them. Accordingly, the product is in ample supply. For all these reasons, the Director says that section 75 can be sensibly read to apply to a refusal to grant a copyright licence.

24 The Director is also of the view that policy considerations favour the application of section 75. He states that, if a refusal to grant a licence is not caught by section 75, the effect will be that intellectual property rights will be seen to "trump" competition law. He submits that dire consequences will follow a finding that the Tribunal has no jurisdiction in this case. He is concerned that all distribution arrangements involving the licensing of manufacturing rights will be beyond the Director's reach in cases where an alleged refusal to supply is accomplished by a refusal to licence. He also suggests that this problem will augment because businesses will rearrange their affairs to increase their reliance on licence arrangements.

25 On the other hand, the respondents say that the language of section 75 has been "tortured" by the Director to force it to apply to this case. They submit that the Director's interpretation of the section ignores the respondents' copyright rights. For example, licences are only in ample supply if one assumes that the respondents do not have the right to refuse to grant them. Similarly, to find that usual trade terms may exist ignores the reality that Columbia House (Canada) is the only licensee in Canada, and that Canada is the market as defined by the Director. Furthermore, even if granted, any future licences must be negotiated. In these circumstances, the respondents submit that one could not find that there are usual trade terms.

26 The respondents also counter the Director's position by saying that nowhere in the Act is the Tribunal given the power to override the simple exercise of intellectual property rights and that, for this reason, any grant of such a power must be based on clear and unequivocal language. This is particularly true in their submission in view of the provisions of section 32 of the Act. Section 32 deals, *inter alia*, with situations in which the use of exclusive copyright rights prevents, or lessens, undue competition in the manufacture or sale of an article. In such situations, jurisdiction is given to the Federal Court of Canada to make a wide range of orders including directing the grant of a licence.

27 Section 32 differs from section 75 in that: (i) it is specifically directed to the use of copyright rights; (ii) a competition impact test must be met before an order will be made; (iii) the Attorney General of Canada and not the Director is the applicant and; (iv) there is a defence based on treaty provisions. Section 32 reads as follows:

32. (1) In any case where use has been made of the exclusive rights and privileges conferred by one or more patents for invention, by one or more trade-marks, by a copyright or by a registered integrated circuit topography, so as to

(a) limit unduly the facilities for transporting, producing, manufacturing, supplying, storing or dealing in any article or commodity that may be a subject of trade or commerce,

(b) restrain or injure, unduly, trade or commerce in relation to any such article or commodity,

(c) prevent, limit or lessen, unduly, the manufacture or production of any such article or commodity or unreasonably enhance the price thereof, or

(d) prevent or lessen, unduly, competition in the production, manufacture, purchase, barter, sale, transportation or supply of any such article or commodity,

the Federal Court may make one or more of the orders referred to in subsection (2) in the circumstances described in that subsection.

(2) The Federal Court, on an information exhibited by the Attorney General of Canada, may, for the purpose of preventing any use in the manner defined in subsection (1) of the exclusive rights and privileges conferred by any patents for invention,

trade-marks, copyrights or registered integrated circuit topographies relating to or affecting the manufacture, use or sale of any article or commodity that may be a subject of trade or commerce, make one or more of the following orders:

- (a) declaring void, in whole or in part, any agreement, arrangement or licence relating to that use;
- (b) restraining any person from carrying out or exercising any or all of the terms or provisions of the agreement, arrangement or licence;
- (c) directing the grant of licences under any such patent, copyright or registered integrated circuit topography to such persons and on such terms and conditions as the court may deem proper or, if the grant and other remedies under this section would appear insufficient to prevent that use, revoking the patent;
- (d) directing that the registration of a trade-mark in the register of trade-marks or the registration of an integrated circuit topography in the register of topographies be expunged or amended; and
- (e) directing that such other acts be done or omitted as the Court may deem necessary to prevent any such use.

(3) No order shall be made under this section that is at variance with any treaty, convention, arrangement or engagement with any other country respecting patents, trade-marks, copyrights or integrated circuit topographies to which Canada is a party.

28 The respondents argue that, in the absence of clear language, it would be wrong to conclude that the Tribunal, as an inferior tribunal, has been given the power to ignore intellectual property rights and order the respondents to grant what are, in effect, compulsory licences in favour of BMG (Canada) when the Federal Court can make such an order only after the applicant meets a competition impact test and only after any defences based on international treaty rights are considered.

29 The respondents also rely on subsection 79(5) of the Act, which deals with abuse of dominant position and which provides, *inter alia*, that acts engaged in only pursuant to the exercise of rights under the *Copyright Act* are not anti-competitive acts. In the respondents' submission, because Parliament expressly excluded the simple exercise of copyright rights from the definition of anti-competitive acts in section 79, one cannot reasonably find jurisdiction over such matters in section 75 without a clear statement to that effect.

30 Having considered the submissions discussed here and the additional points in the parties' memoranda, the Tribunal has concluded that on the facts of this case the licences are not a product as that term is used in section 75 of the Act, because on a sensible reading section 75 does not apply to the facts of this case. Although a copyright licence can be a product under the Act, it is clear that the word "product" is not used in isolation in section 75, but must be read in context. The requirements in section 75 that there be an "ample supply" of a "product" and usual trade terms for a product show that the exclusive legal rights over intellectual property cannot be a "product" — there cannot be an "ample supply" of legal rights over intellectual property which are exclusive by their very nature and there cannot be usual trade terms when licences may be withheld. The right granted by Parliament to exclude others is fundamental to intellectual property rights and cannot be considered to be anti-competitive, and there is nothing in the legislative history of section 75 of the Act which would reveal an intention to have section 75 operate as a compulsory licensing provision for intellectual property.

31 As well, the Tribunal has accepted the respondents' submissions that, when considered in the context of sections 32 and 79(5) of the Act, the term "product" in section 75 cannot be read to include these copyright licences. These submissions are discussed above and need not be repeated here.

32 Although the Tribunal was commenting on section 79 and intellectual property (trade-marks) in *Canada (Director of Investigation & Research) v. Tele-Direct (Publications) Inc.*, we are of the view that its statement is very compelling in the circumstances of the motion before us:

The respondents' refusal to licence their trade-marks falls squarely within their prerogative. Inherent in the very nature of the right to license a trade-mark is the right for the owner of the trade-mark to determine whether or not, and to whom,

to grant a licence; selectivity in licensing is fundamental to the rationale behind protecting trade-marks. The respondents' trade-marks are valuable assets and represent considerable goodwill in the marketplace. The decision to license a trade-mark — essentially, to share the goodwill vesting in the asset — is a right which rests entirely with the owner of the mark. The refusal to license a trade-mark is distinguishable from a situation where anti-competitive provisions are attached to a trade-mark licence.⁴

The *Copyright Act* is similar to the *Trade-marks Act*,⁵ in that it allows the trade-mark owner to refuse to license and it places no limit on the sole and exclusive right to license.

33 Finally, the Tribunal adopts Rothstein J.'s response to the Director's argument about dire policy consequences in his decision regarding the Tribunal's jurisdiction over certain undertakings made to the Director pursuant to the consent order in the *Imperial Oil* case:

The *Competition Act* does not confer open-ended jurisdiction on the Tribunal to deal with any and all competition issues. It is given specific powers which are set out in the *Competition Act* and in the *Competition Tribunal Act*. It may only act where it has been given the power to do so.⁶

34 Finally, on the issue of the prematurity of this motion, the Director's counsel pressed the Tribunal to adopt a cautious approach and to avoid making a decision without the benefit of all the relevant facts. However, when pressed in turn about what facts were missing which would be relevant to the issue of jurisdiction, counsel responded that the Tribunal needs to hear facts concerning the terms of the Columbia House (Canada) licences and similar licences in North America. When asked why these would be relevant, counsel for the Director indicated that they might support an inference of anti-competitive motive on the respondents' part.

35 There are two problems with this submission. Firstly, section 75 says nothing about motive and, secondly, the Director has not pleaded anything about motive in his application. This being the case, it is clear that the missing facts would not be relevant at a hearing on the merits as this case is presently conceived. Accordingly, the absence of such facts should not forestall a decision on this motion at this time.

36 The Director's counsel also indicated that the Tribunal needed more information about the nature of the direct mail-order record club business. He submitted that once the Tribunal was in possession of such information, it would accept that in this business the licence is a "product" because it is just a surrogate for the manufactured records, tapes and CDS which are produced pursuant to the licence. However, Director's counsel conceded that in all cases where licences grant a right to manufacture, the licence could be seen as a surrogate for the finished goods.

37 In spite of these submissions, the Tribunal has not been persuaded that it lacks any information about the nature of the direct mail-order record business which would contribute to a decision on the issue of its jurisdiction under section 75 of the Act in the circumstance of this motion.

VIII. Conclusions

38 As the *Competition Tribunal Rules* do not deal with this motion, the Tribunal has had regard to the *Federal Court Rules*,⁷ wherein Rule 419 (striking a pleading for disclosing no cause of action) and Rule 474 (preliminary determination of a question of law) seem most apt. The Federal Court of Appeal considered Rule 474 in *Berneche v. R.* and said:

What Rule 474(1)(a) requires is that the Court be satisfied (1) that there is no dispute as to any fact material to the question of law to be determined; (2) that what is to be determined is a pure question of law, and (3) that its determination will be conclusive of a matter in dispute so as to eliminate the necessity of a trial or, at least, shorten or expedite the trial.⁸

39 In the Tribunal's view, the respondents have met these tests and have also made out a plain and obvious case for striking out the application as required under Rule 419. Accordingly, the Tribunal has concluded that section 75 of the Act does not

give it jurisdiction to make the order sought by the Director in his application. An order will therefore be made granting this motion and striking out the Director's application against the respondents.

Motion granted.

Footnotes

- 1 R.S.C. 1985, c. C-34.
- 2 R.S.C. 1985, c. F-7.
- 3 R.S.C. 1985, c. C-42.
- 4 (1997), 73 C.P.R. (3d) 1 (Competition Trib.), at 32.
- 5 R.S.C. 1985, c. T-13.
- 6 *Canada (Director of Investigation & Research) v. Imperial Oil Ltd.* (November 10, 1994), Doc. CT-89/3 (Competition Trib.), Reasons for Decision Regarding Jurisdiction Over Undertakings at 14-15.
- 7 C.R.C. 1978, c. 663.
- 8 [1991] 3 F.C. 383 (Fed. C.A.), at 388.

Tab 4

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**Century 21 Canada Limited Partnership, Nechako Real Estate Ltd.
doing business as Century 21 In Town Realty, Charles R. Bilash,
Charles Bilash Personal Real Estate Corporation and Michael
James Walton (Plaintiffs) and Rogers Communications Inc. and
2167961 Ontario Inc. doing business as Zoocasa Inc. (Defendants)**

R. Punnett J.

Heard: May 19-21, 2010
Judgment: September 2, 2011
Docket: Vancouver S088463

Counsel: M. Vesely, J.S. Popp for Plaintiffs
W.S. Martin, M.E. Fancourt-Smith for Defendants

Subject: Contracts; Corporate and Commercial; Property; Torts; Intellectual Property; Civil Practice and Procedure; Public; Evidence

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Statutes considered:

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Chapter 1, s. 107 — considered

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Generally — referred to

s. 2 "infringing" — considered

s. 3 — referred to

s. 3(1) — considered

s. 5(1)(a) — considered

s. 13(1) — considered

s. 13(2) — considered

s. 13(3) — considered

s. 13(4) — considered

s. 13(5) — considered

s. 13(6) — considered

s. 13(7) — considered

s. 27 — considered

- s. 27(1) — considered
- s. 29 — considered
- s. 29.1 [en. 1997, c. 24, s. 18(1)] — referred to
- s. 29.2 [en. 1997, c. 24, s. 18(1)] — referred to
- s. 38.1 [en. 1997, c. 24, s. 20(1)] — considered
- s. 38.1(2) [en. 1997, c. 24, s. 20(1)] — considered
- s. 38.1(3) [en. 1997, c. 24, s. 20(1)] — considered
- s. 38.1(3)(b) [en. 1997, c. 24, s. 20(1)] — considered
- s. 38.1(5) [en. 1997, c. 24, s. 20(1)] — considered
- s. 39 — referred to
- s. 39(1) — considered

Court Order Interest Act, R.S.B.C. 1996, c. 79
Generally — referred to

Rules considered:

Supreme Court Civil Rules, B.C. Reg. 168/2009
R. 11-2(1) — considered

Words and phrases considered:

hyperlink: computing

While the Internet has become part of contemporary society some of the terminology involved may still not have wide exposure. As a result defining of some of the terms is necessary.

Hyperlink: Computing a link from a hypertext document to another location, activated by clicking on a highlighted word or image: Concise Oxford English Dictionary.

indexing

While the Internet has become part of contemporary society some of the terminology involved may still not have wide exposure. As a result defining of some of the terms is necessary . . .

Indexing: The extraction of index terms from web pages without specific layouts or formatting: Expert Report of John Levine.

scraping

While the Internet has become part of contemporary society some of the terminology involved may still not have wide exposure. As a result defining of some of the terms is necessary . . .

Scraping: A form of indexing that looks for specific information located in known positions on selected web pages with known layouts. Used particularly to build specialized websites combining information from other websites. The defendants' expert opines that there is no generally accepted definition in law in Canada of scraping but it is acknowledged to be a subset of indexing.

frame: computing

While the Internet has become part of contemporary society some of the terminology involved may still not have wide exposure. As a result defining of some of the terms is necessary . . .

Frame (Framing): Computing a graphic panel in an Internet browser which encloses a self-contained section of data and permits multiple independent document viewing: Concise Oxford English Dictionary.

robot.txt file

While the Internet has become part of contemporary society some of the terminology involved may still not have wide exposure. As a result defining of some of the terms is necessary. . . .

Robot.txt file: A robot.txt file contains code that can be read by the automated software programs called robots or spiders that are used by search engines to index websites. To function they require that they know the name of the search engines robot: Expert Report of John Levine.

cache

While the Internet has become part of contemporary society some of the terminology involved may still not have wide exposure. As a result defining of some of the terms is necessary . . .

Cache (Caching): an auxiliary memory from which high-speed retrieval is possible: Concise Oxford English Dictionary.

hosting

While the Internet has become part of contemporary society some of the terminology involved may still not have wide exposure. As a result defining of some of the terms is necessary . . .

Hosting or Host: a computer which mediates multiple access to databases or provides other services to a network: Concise Oxford English Dictionary.

IP address

While the Internet has become part of contemporary society some of the terminology involved may still not have wide exposure. As a result defining of some of the terms is necessary . . .

IP Address: Computing Internet Protocol: Concise Oxford English Dictionary.

possession

Black's Law Dictionary, 6th ed. (West Publishing Co.: St. Paul, Minn., 1990) at 1163 defines "possession" as follows:

The law, in general, recognizes two kinds of possession: actual possession and constructive possession. A person who knowingly has direct physical control over a thing, at a given time, is then in actual possession of it. A person who, although not in actual possession, knowingly has both the power and the intention at a given time to exercise dominion or control over a thing, either directly or through another person or persons, is then in constructive possession of it. The law recognizes also that possession may be sole or joint . . .

ACTION by plaintiff website developers for injunction and damages arising from defendant search engine's conduct in accessing and copying plaintiff's real estate website without consent.

R. Punnett J.:

1 The ability of the law to adapt is part of its strength. Technological innovation tests that resilience. This case considers that ability as claims for breach of contract, trespass to chattels and copyright infringement meet the Internet. At the root of this lawsuit is the legitimacy of indexing publically accessible websites.

2 The plaintiffs seek an injunction and damages against the defendants for their conduct in accessing Century 21 Canada's Website and copying photographs and text from that Website without consent.

Parties

3 The plaintiff, Century 21 Canada Limited Partnership, is a limited partnership and is the master franchisor of all independent real estate brokerage offices operated under the "Century 21" brand and trademarks in Canada ("Century 21").

4 The plaintiff, Nechako Real Estate Ltd. ("Nechako"), does business as Century 21 In Town Realty ("In Town Realty") as a real estate broker pursuant to a Century 21 franchise agreement with Century 21.

5 The plaintiffs, Charles R. Bilash ("Bilash") and Michael James Walton ("Walton"), are licenced real estate salespersons engaged by In Town Realty.

6 The defendant 2167961 Ontario Inc., doing business as Zoocasa ("Zoocasa") is a wholly owned subsidiary of Rogers Communications Inc. ("Rogers").

7 The plaintiff claims against the defendant Rogers on the basis it participated in creating, developing, maintaining and marketing the Zoocasa Website.

Overview

8 This case arises from the desire of Century 21 to allow public access to its Website, yet at the same time limit commercial access by its competitors. These competing goals have given rise to this dispute over the defendant Zoocasa's access to and use of the plaintiffs' Website and its contents.

9 The actions of the defendants that are complained of evolved during the course of this litigation. The plaintiffs allege that Zoocasa was bound by the Terms of Use of the Century 21 Website and breached them. It is also alleged that the defendant Zoocasa breached copyright held by the plaintiffs. The claims against the defendant Rogers are that Rogers authorized the breach of copyright contrary to s. 27 of the *Copyright Act*, R.S.C. 1985, c. C-42 and, in the alternative, that Roger's induced the breach of contract by Zoocasa.

Terminology

10 While the Internet has become part of contemporary society some of the terminology involved may still not have wide exposure. As a result defining of some of the terms is necessary.

a. *Hyperlink*: Computing a link from a hypertext document to another location, activated by clicking on a highlighted word or image: Concise Oxford English Dictionary.

b. *Indexing*: The extraction of index terms from web pages without specific layouts or formatting: Expert Report of John Levine.

c. *Scraping*: A form of indexing that looks for specific information located in known positions on selected web pages with known layouts. Used particularly to build specialized websites combining information from other websites. The defendants' expert opines that there is no generally accepted definition in law in Canada of scraping but it is acknowledged to be a subset of indexing:

d. *Frame (Framing)*: Computing a graphic panel in an Internet browser which encloses a self-contained section of data and permits multiple independent document viewing: Concise Oxford English Dictionary.

e. *Robot.txt file*: A robot.txt file contains code that can be read by the automated software programs called robots or spiders that are used by search engines to index websites. To function they require that they know the name of the search engines robot: Expert Report of John Levine.

f. *Cache (Caching)*: an auxiliary memory from which high-speed retrieval is possible: Concise Oxford English Dictionary.

g. *Hosting or Host*: a computer which mediates multiple access to databases or provides other services to a network: Concise Oxford English Dictionary.

h. *IP Address*: Computing Internet Protocol: Concise Oxford English Dictionary.

Facts

11 Century 21 developed and promotes its real estate website, which is found at the uniform (or universal) resource locator ("URL") address www.century21.ca (the "Century 21 Website" or the "Website"). The Website is hosted by www.WhereToLive.com in the state of Minnesota ("WTL").

12 The Century 21 Website features property listings belonging to Century 21 brokers and agents from British Columbia and across Canada. It allows users to search for properties by location, price and other features or attributes of the property. The Century 21 Website features, among other things, property listings belonging to In Town Realty and its representatives, Bilash and Walton.

13 The goal of Century 21 in creating the Website was to create a site superior to their competitors that would give them a competitive advantage for their franchisees and salespersons. The Website features among other things property listings belonging to In Town Realty and its representatives Bilash and Walton.

14 Century 21, Bilash, Charles Bilash Personal Real Estate Corporation, In Town Realty and Walton claim copyright protection for photographs of properties listed for sale along with prose descriptions of the properties and property details (the "Works").

15 Century 21 also claims copyright protection of property listings and photographs pursuant to an Assignment of Copyright Agreement with Bilash and Walton (the "Assignment"). According to Century 21, the Assignment was created to simplify this proceeding such that the claim for copyright protection may now lie with Century 21.

16 The defendant Zoocasa created, developed, maintains and markets a website found at the URL address www.zoocasa.com (the "Zoocasa Website").

17 The Zoocasa Website includes the following content:

a. background information regarding the municipalities or neighbourhoods in which particular property listings are located including mapping, satellite imagery, street level photography, neighbourhood descriptions, schools information, demographic information and a "walkscore" for the neighbourhood rating how conveniently amenities can be reached on foot;

b. a hyperlink for each property listing that directs the user to the website of the listing agent or broker for that property listing;

c. revenue-generating advertisements, including advertisements targeted to persons in British Columbia when the Zoocasa Website is accessed by users in British Columbia; and

d. photographs, written descriptions and other information regarding residential property listings in British Columbia and across Canada;

18 The concept behind the Zoocasa Website is to offer consumers an Internet tool that approaches house buying in the way that consumers do, with the focus not on large geographic areas, but rather on the neighbourhood. This approach provides consumers with information such as whether a listing is near a good school or how far away shopping or work would be. As a result it purports to provide a service of value to the consumer.

19 The Zoocasa Website functions as a type of search engine, indexing property listings from a number of real estate websites and returning relevant ones in response to search queries by a site visitor such as: location, price, number of bedrooms, etc. Zoocasa then brings together different neighbourhood information together with listing "hits", including mapping, street level photography, school descriptions, neighbourhood descriptions and demographic information.

20 Zoocasa is however a "vertical search engine", as opposed to a general one, as it is a search engine focused on one area — real-estate listings in Canada. Initially, Zoocasa indexed and displayed to users information that included a property's address, price, number of bedrooms, a varying number of the characters of the property description and a photograph of the listing from the source website. The user could then click through to the originating site for more detailed information.

21 In November 2008, Zoocasa changed its indexing practices to limit its indexing to truncated real property descriptions. It found that the rate of "click-throughs" increased when less information was provided.

22 The plaintiffs, Bilash and Walton, have not given permission to the defendants to copy or use the content of their respective real estate listings. They object to the use of their content by the defendants. Century 21 has never given its consent to either Zoocasa or Rogers to index the Century 21 Website.

Chronology

23 Rogers New Ventures, a division of Rogers, commenced development of Zoocasa in the spring of 2007. In the summer of 2007, Rogers started building a search engine.

24 Darren Phillipson, an employee of Rogers registered the domain name for the Zoocasa Website on January 19, 2007. Zoocasa was incorporated on March 28, 2008, as 2167961 Ontario Inc. and was first launched to the public in August 2008.

25 The plaintiff Century 21 first became aware of Zoocasa in August 2008, when representatives of Rogers made a presentation to Century 21 seeking their cooperation in Zoocasa's plans. Despite Rogers' overtures, Century 21 decided not to participate or cooperate with Zoocasa. Notwithstanding that, Zoocasa proceeded to access the Century 21 Website.

26 On September 2, 2008, Century 21 Canada's solicitors advised Zoocasa, by a letter to Rogers, that Century 21 did not consent to Zoocasa downloading or copying any material from their Website.

27 On October 5, 2008, Century 21 placed the Terms of Use on their Website, and they have not been amended since.

28 On October 6, 2008, Century 21's solicitors, again by letter, advised solicitors for Zoocasa and Rogers that their client did not consent to Zoocasa's activity and demanded that they remove all of their materials from Zoocasa's Website and sever all links. They also advised Zoocasa's solicitors of the existence of the Terms of Use and their alleged breach of them. Zoocasa requested further meetings with Century 21.

29 Once again on October 17, 2008, solicitors for Century 21 advised solicitors for Zoocasa and Rogers that their client was not interested in any negotiations and that it appeared litigation was necessary to resolve matters.

30 On November 6, 2008, solicitors for Century 21 wrote to solicitors for Zoocasa advising them that their conduct in continuing to access the Century 21 Website was putting Century 21 at risk of losing access to the Multiple Listing Service database.

31 On November 20, 2008, Zoocasa commenced displaying truncated property descriptions instead of complete property descriptions.

32 On December 2, 2008 Bilash, Walton and In Town Realty signed Copyright Licence Agreements with Century 21 and assigned to Century 21 the right to bring an action for copyright infringement. On December 3, 2008, this action was commenced.

33 On August 20, 2009, Zoocasa began "framing" indexed site information.

34 On December 15, 2009, Zoocasa ceased framing.

35 On February 12, 2010, Charles Bilash Personal Real Estate Corporation signed a Copyright Licence Agreement with Century 21 and assigned to Century 21 its right to bring action for copyright infringement.

36 Zoocasa's search engines stopped indexing the Century 21 Website in early 2010 and stopped indexing Century 21 listings on March 5, 2010, save and except for cases where individual real estate agents or salespeople requested that their listings be indexed by Zoocasa. Zoocasa now states it will not index the Century 21 Website further without the permission of Century 21.

Findings Respecting Activities of Zoocasa

37 Initially, the Zoocasa Website indexed and linked to the Century 21 Website. It is not disputed that the Zoocasa's robot accessed the Century 21 Website once a day. Such access included a group of requests as opposed to one request. For example, in accessing the listings of Century 21, Zoocasa would access all of the listings as part of that once a day request. The robot would then index the page for information, assess its relevance and continue to the next web page.

38 Zoocasa took data from certain fields on the Century 21 Website and put it in certain fields in the display of the Zoocasa Website. Initially this included the full property description. As noted earlier, this practice ceased on November 20, 2008.

39 The Zoocasa Website also included reproductions and republications of the Works in full and hyperlinks that directed their users to specific pages of the Century 21 Website that contained property listings, both with respect to the Works and with respect to property listings of other Century 21 brokers and agents.

40 Zoocasa acknowledged that they could stop indexing the Century 21 Website by removing it from their list of websites to be indexed. It confirmed it could do so within a week. Despite the letters from solicitors for the plaintiffs, Zoocasa chose not to do so until early 2010, nearly 2 ¹/₂ years after Century 21 first advised Zoocasa they did not consent to Zoocasa's activities and advised them of the Century 21 Terms of Use and Zoocasa's alleged breach of these terms.

41 It is clear that Zoocasa's operations are commercial in nature. Interestingly, Zoocasa has posted on its site Terms of Use that are similar to those used by the plaintiff. In addition, Zoocasa uses the robot.txt exclusion itself, to prevent others from indexing its site, but does not make available the name of its spider so that others can use the robot.txt exclusion to exclude Zoocasa from indexing their sites.

Issues

42 The issues in this case are as follows:

- a. Are the Terms of Use an enforceable contract between the parties?
- b. Has there been copyright infringement by the defendant Zoocasa?
- c. Has the defendant Zoocasa committed the tort of trespass to chattels in accessing Century 21's Website?
- d. Is Rogers liable for the actions of Zoocasa?
- e. Are the plaintiffs entitled to injunctive relief?
- f. Are damages recoverable for breach of copyright?
- g. Are damages recoverable for breach of contract?

Preliminary Matters

Expert Reports

43 The parties filed expert reports with respect to certain technical matters relating to the claims. The plaintiffs filed a report from John Levine. The defendants' response report is that of Samuel E. Trosow. The plaintiffs also filed a reply report from John Levine. The defendants object to the admission into evidence of the John Levine reports.

44 There is no dispute respecting the general principles applicable to expert reports. Expert evidence must not be argumentative, it must not consist of findings of fact or conclusions of law and the facts upon which the expert opinion is founded must be included in the report: See *Cogar Estate v. Central Mountain Air Services Ltd.*, [1990] B.C.W.L.D. 1422 (B.C. S.C.) [*Cogar Estate v. Central Mountain Air Services Ltd.*, 1990 CarswellBC 1736 (B.C. S.C.)], appeal dismissed (1992), 72 B.C.L.R. (2d) 292 (B.C. C.A.); *Emil Anderson Construction Co. v. British Columbia Railway* (1987), 17 B.C.L.R. (2d) 357 (B.C. S.C.), at 359-360; *Quintette Coal Ltd. v. Bow Valley Resource Services Ltd.* (1988), 29 B.C.L.R. (2d) 127 (B.C. S.C.); *Goerzen v. Sjolie* (1997), 86 B.C.A.C. 44 (B.C. C.A.) at paras. 16-24.

45 With respect to a reply report of an expert it must be limited to a response to the expert evidence to which it is a reply: *Canadian National Railway v. Canada*, 2002 BCSC 1669 (B.C. S.C. [In Chambers]).

Discussion of Expert Reports

Report of Dr. John R. Levine

46 The report of Dr. John R. Levine addresses the use and operation of search engines on the Internet. The expertise of Dr. Levine is not challenged nor are his comments respecting what is effectively "trade usage" on the Internet in relation to the operation of general search engines. The defendants however do object to those portions of the report that comment on Zoocasa's alleged failure to comply with certain conventions commonly used by search engines.

47 The first objection of the defendants is specifically to those portions of John Levine's report that characterize the conduct of the defendants. The wording they object to is contained in three paragraphs which comment on whether search engines that do not comply with the conventions are "reputable" or "legitimate". The specific paragraphs objected to are:

16. As a concrete example, Google Web Search's automated software program is known as the "Googlebot." The Googlebot crawls Internet websites to enable Google to create its index. In my experience, I have found that the Googlebot, like the spiders at all reputable search engines, respects the industry-standard protocols concerning crawling, indexing and caching web pages...

30. In my experience, it is standard industry practice that all legitimate search engines disclose the name of their web spiders, and make that information easy to find.

33. In my experience, all legitimate search engines follow the robot exclusion protocol, and manage their indices in accordance with the instructions in robots.txt. The search engines that do not follow the protocol generally are run for unethical or illegal purposes, such as collecting e-mail addresses for spamming, or looking for security holes that can be exploited by malicious software ("malware").

48 The use of terms such as "reputable", "unethical", "illegal" or "legitimate" is, in my view, outside the scope of Dr. Levine's expertise and usurps the role of the court in determining what are issues of law and value judgments. Whether or not a practice is "legitimate" is clearly an issue requiring a legal conclusion. That is the role of the court, not the expert. Such terms raise the appearance of advocacy rather than independent expert evidence.

49 The defendants also object to para. 36. Reference must be made to paras. 34-35 in order to place para. 36 in context:

34. Specialized search engines sometimes use a modified indexing scheme informally known as "scraping". The distinction between scraping and regular indexing is that scraping looks for specific information located in known positions on selected web pages with known layouts, while indexing uses more general techniques to extract index terms from web pages without specific layouts or formats.

35. In recent years, web scraping has become a common way to build specialized web sites combining information from other web sites, with the other sites' consent. Examples include travel price comparison web sites such as kayak.com which scrape fare and schedule information from multiple airline and travel agent web sites to create combined listings showing the best prices and schedules.

36. In this case, it is straightforward to determine what Zoocasa is doing. Their web site contains highly structured entries for each listed property, specifically showing the address, asking price, offering agent, number of bedrooms and bathrooms, property description, and a property photograph. The only plausible ways for Zoocasa to present this level of detail is either for the listing agents to provide the data directly, or for Zoocasa to scrape the details from pages of the source web sites. Since I am informed that Century 21 is not voluntarily providing any information to Zoocasa, the Zoocasa entries for Century 21 listings must have been created by scraping. Their site also provides conventional search by keyword, which shows they are also indexing the pages they spider.

50 The defendants submit that the words in para. 36 stating "in this case, it is straightforward to determine what Zoocasa is doing" are objectionable because there is no disclosure of what facts or materials are relied upon and, in addition, the statement purports to make determinations of fact that are properly the function of the court.

51 The objections are well founded. I am satisfied however that the report is admissible with editing of the offending paragraphs. The editing is ordered as follows:

a. Paragraph 16 is amended by removing the words "In my experience, I have found that the Googlebot, like the spiders at all reputable search engines, respects the industry-standard protocols concerning crawling, indexing and caching web pages ...";

b. Paragraphs 30 and 33 are deleted from the report; and,

c. Paragraph 36 is deleted from the report as it makes factual determinations that are outside the purview of an expert.

Report of Samuel E. Trosow

52 The report of Mr. Trosow was filed by the defendants. The plaintiffs do not object to its content. The report of Mr. Trosow comments on the importance of linking and indexing to the functioning of the World Wide Web. It confirms that linking is fundamental to the operation of the web and that indexing facilitates access. He also confirms that Zoocasa links to external websites and that it indexes such sites although he notes that "Canadian jurisprudence has not yet developed specific and particular definitions for concepts such as "indexing" and the usage among various user communities varies".

53 In addition he opines that "scraping" is not clearly defined and is currently an informal term although he would characterize it as a subset of the broader concept of indexing. His comments on those portions of Dr. Levine's report that have been excised are no longer of relevance. However, he does end his report by saying:

... The relevant question in my view is whether the materials are being utilized in a transformative manner in order to provide a usable and informative aid for the end-user searching for information about listings.

54 "Transformative use" is an American concept and one that I will address later in these reasons in the context of copyright infringement and fair dealing.

Reply Report of Dr. John L. Levine

55 The defendants' objection to the reply report is that it states that Dr. Levine has reviewed the Trosow report and the affidavits of J. R. Langlois and Michael Lee filed on behalf of the defendants but fails to respond to any matters in the Trosow report. They state that it responds only to the fact evidence of Mr. Langlois.

56 In my opinion, the real issue is that the content of the reply report is argumentative and judgmental. Rule 11-2 (1) states:

Duty of expert witness

(1) In giving an opinion to the court, an expert appointed under this Part by one or more parties or by the court has a duty to assist the court and is not to be an advocate for any party.

57 The following principals are to be considered when assessing expert reports that are overly argumentative:

a. Inferences which should be drawn from the proven facts are, in most situations, for the court not the experts. The report draws many inferences which are then used to support the opinions expressed: *Emil Anderson* at 32-33.

b. It is unnecessary ... for experts to perform the court's function or for counsel to adduce arguments in the guise of evidence: *Sengbusch v. Priest* (1987), 14 B.C.L.R. (2d) 26 (B.C. S.C.), at 40.

c. [An expert] may not assess the value or justifiability of the [Claimant's] claim: *Quintette Coal Ltd. v. Bow Valley Resource Services Ltd.* (1988), 29 B.C.L.R. (2d) 127 (B.C. S.C.), at 130.

58 The last two sentences of paragraph 4 and all of paragraphs 5 and 6 of the Levine Reply Report are inadmissible on the basis that they are argumentative and do not fall within the purview of an expert report. Furthermore, those paragraphs dispute certain factual evidence of a witness and attempt to draw inferences and conclusions based on these facts. I do not find it necessary to deal with the defendant's contention that the reply report fails to respond to the Trosow report. Even if I were to find that the reply report was proper in form, the noted portions would still be inadmissible for the reasons stated above.

Contract

Breach of Contract: Terms of Use

59 On October 5, 2007, the plaintiff, Century 21, posted Terms of Use on their Website. They were located on the main Century 21 Website at the bottom of the home or first page of the Website. They were not drawn to the attention of users in any active way. The Century 21 Website did not require that the user acknowledge reading and agreeing to the Terms of Use before accessing the Website. The terms stated that upon accessing the Website the user was bound by them. That is, the act of accessing the remainder of the Website was agreement by the user to the contractual terms. This raises issues respecting the formation of a contract, standard form contracts and electronic contracts.

The Terms of Use

60 The relevant provisions of the Terms of Use of Century 21 Limited's Website are as follows:

CENTURY 21 CANADA LIMITED PARTNERSHIP WEBSITE TERMS OF USE

THESE TERMS OF USE CONTAIN LEGAL OBLIGATIONS. PLEASE READ THESE TERMS OF USE BEFORE USING THIS WEBSITE.

Acceptance of these Terms of Use and any Revisions thereto

Century 21 Canada Limited Partnership ("**CENTURY 21**") provides this website (the "**Website**") to you ("**You**") subject to your acceptance of the following terms and conditions of use (these "**Terms of Use**"). By accessing or using the Website You agree to be bound by these Terms of Use without limitation or qualification. If You do not agree to be bound by these Terms of Use, You must not access or use the Website.

CENTURY 21 may, at any time, without notice or liability, revise these Terms of Use by updating this posting. You should periodically revisit this posting to review any revisions to these Terms of use. If any revision is not acceptable to You, You must cease accessing and using the Website. If You continue to access or use the Website after any revisions are posted You will be deemed to have accepted those revisions.

Use and Restrictions

You may access and use the Website and the information, features and services thereon (collectively, the "**Content**") only in accordance with all applicable laws and regulations and with these Terms of Use.

Subject to these Terms of Use, CENTURY 21 grants You a non-exclusive, non-transferable, revocable licence to use the Website and the Content solely for your own personal and non-commercial use. Content may only be printed, copied or saved onto your own computer for your personal and non-commercial use.

You must not, directly or indirectly, print, copy, reproduce, save onto your own computer, modify, translate, merge with other data, frame in another website, post on another website, or otherwise use the Content for any public, commercial or non-personal purpose. You must not, directly or indirectly, display, post, disseminate, distribute, publish, broadcast, transfer, sell or sublicense the Content to another individual or entity. The prohibited uses expressly include but are not limited to "screen scraping", "database scraping" and any other activity intended to collect, store, re-organize, summarize or manipulate any Content (whether via an automatic program or a manual process).

...

Intellectual Property Rights

The Website and all of the Content (including the organization and layout of the Website and all software used in connection with the Website) are, and at all times remain, the property of CENTURY 21, its franchisees, brokers, sales people and/or licensors. The Website and all of the Content are protected by intellectual property rights owned by CENTURY 21, its franchisees, brokers, sales people and/or licensors. You agree to abide by all intellectual property notices, information and restrictions on, or displayed with, the Content. Note that any Content owned by CENTURY 21's franchisees, brokers, sales people or licensors may be subject to additional restrictions.

...

The display of the Content, the CENTURY 21 IP and the Third Party IP on the Website does not convey or create any licence or other rights in any of the Content, the CENTURY 21 IP or the Third Party IP. You acknowledge and agree that You do not acquire:

1. any ownership rights in any of the Content, the CENTURY 21 IP or the Third Party IP;

2. any right to use any of the Content, the CENTURY 21 IP or the Third Party IP for commercial purposes including sale, resale, licence or sublicense; or

3. any right to reproduce, distribute, display, post, disseminate, publish, broadcast, or transfer any of the Content, the CENTURY 21 IP or the Third Party IP.

Use of any of the Content, the CENTURY 21 IP or the Third Party IP, without the prior written consent of CENTURY 21, or the applicable franchisee, broker, sales person, licensor or third party, is strictly prohibited.

...

Links to the Website on Third Party Websites

If You want to include a link to the Website on your website (the "**Third Party Link**"), You must:

1. provide CENTURY 21 with prior written notice describing the nature and features of your website and the proposed appearance and location of the Third Party Link; and

2. obtain the prior written consent of CENTURY 21 to establish the Third Party Link and abide by any terms and conditions required by CENTURY 21 as part of its consent.

CENTURY 21 may at any time, in its sole and absolute discretion, revoke its consent to establish a Third Party Link, with or without cause, upon reasonable notice to You. Upon exercise of this right by CENTURY 21, You must immediately remove all of your links to the Website and must cease all use of the CENTURY 21 IP. If You refuse or neglect to remove all of your links to the Website or to cease using the IP, You acknowledge that such refusal or neglect will result in immediate and irreparable damage to

CENTURY 21 and that CENTURY 21 shall be entitled to relief in the way of temporary and permanent injunctions and such other and further relief as a court may deem just and proper.

...

Guarantees

You represent and warrant that:

...

3. You will use the Website only for your personal and non-commercial use and only as authorized by these Terms of Use.

4. You are fully able and competent to enter into, and abide by, these Terms of Use.

...

Plaintiffs' Argument

61 The plaintiffs submit that the legal principals developed with respect to the law of contract remain intact and have adapted to new technology such as the Internet. They submit that Terms of Use displayed on a website can constitute a binding contract between the owner of the website and its users. They rely on established principles of contract law that they say are applicable to electronic contracts. They state that the Terms of Use found on the Century 21 Website constitute the terms of a contract between Century 21 and those who, with notice of the Terms of Use, choose to use the Century 21 Website.

Defendants' Argument

62 The defendants submit that visitors to the Century 21 Website are not required to read or agree to the Terms of Use. They state that they are not prominently displayed. They allege they are an attempt to impose a unilateral contract. They argue that Zoocasa never agreed to the Terms of Use and that there was no consideration.

63 The defendants submit that the Terms of Use did not create an enforceable agreement prohibiting Zoocasa from indexing the Century 21 Website. They state that the issue at bar is whether any contract is ever formed at all, something that does not turn on notice. In Zoocasa's submission affirmative agreement is required even if they had notice of the terms.

Discussion

Law of Contract

64 It is trite law that creation of a contract requires that there be an offer, acceptance and consideration to form a valid and binding contract. Over time as business practices evolved, so too has the determination of what is an offer, what is acceptance, what constitutes consideration and when a contract is formed. Hinds J., in *Beatty v. First Exploration Fund 1987 & Co.* (1988), 25 B.C.L.R. (2d) 377 (B.C. S.C.), at 383 and 385, noted:

...

The law has endeavoured to take cognizance of, and to be receptive to, technological advances in the means of communication....

...

The conduct of business has for many years been enhanced by technological improvements in communication. Those improvements should not be rejected automatically when attempts are made to apply them to matters involving the law. They should be considered and, unless there are compelling reasons for rejection, they should be encouraged, applied and approved....

...

65 While *Beatty* addressed the use of faxed documents, the observations of Hinds J. apply no less to the law of contract when applied to the technology of the Internet.

66 G.H.L. Fridman, *The Law of Contract in Canada* (Toronto: Thomson Carswell, 2006) at 13 states:

(a) The essence of a contract

Agreement is at the basis of any legally enforceable contract. The absence of assent prevents the creation of a binding contract. There must be a substratum of agreement, or *consensus ad idem*. For example, in the case of a contract for the sale of land at the minimum there must be *consensus ad idem* on the parties, the land description and the price. Such agreement must be clearly manifested, expressly or by implication. "In order to bring a contract into existence there must be a communication of the parties' intention by means of outward expression." It is necessary not only to show an intention in the party to be charged to agree, but also to show an expression of that intention. An inward intent will not suffice. But how does the law determine the existence and nature of a party's intent? In the words of Sirois J. of Saskatchewan in *Butheil v. Caledonia No. 991 R. M.*: "The law judges of the intention of a person by his outward expression only and it judges of an agreement between two persons exclusively from those expressions of their intentions, which are communicated between them". Hence the requisite agreement may be established by the conduct of the parties subsequent to the alleged contract. [Citations omitted.]

67 And at page 84:

...there must be, as Lennox J. said in *Loranger v. Haines*, "reciprocal undertakings". So if one party is neither giving anything, nor is promising to do or give anything, there is no consideration for the other party's act or promise. What is meant here by the expression "value" must not be taken in a literal, entirely materialistic sense. In most instances, of course, it will be money or money's worth that is involved. But it is not so exclusive. Consideration means something which is of some value in the eyes of the law. It must be real. This could include some act, or promise of an act, which is incapable of being given a monetary value, though it has value, some benefit, in the sense of advantage for the party who is the present or future recipient or beneficiary of the act.

68 Examples of the law addressing changing methods of contracting are the "ticket" cases that arose in the late 18th century. As public transportation developed the practical matter of establishing the terms of the agreement arose. The House of Lords in *Hood v. Anchor Line (Henderson Brothers) Ltd.*, [1918] A.C. 837 (U.K. H.L.), stated that "if it is found that the company did what was reasonably sufficient to give notice of conditions printed on the back of a ticket, the person taking the ticket would be bound by such conditions".

69 Hall J., in *Schuster v. Blackcomb Skiing Enterprises Ltd. Partnership* (1994), 100 B.C.L.R. (2d) 298, [1995] 3 W.W.R. 443 (B.C. S.C.), at para. 14, provides a useful history and analysis of the "ticket" cases. He states:

14 It is to be noted that these were all what I think could properly be described as "ticket" cases but the principles that were there developed continue to be applicable today and in my judgment appear usually to turn on the question of the efficacy of notice to the customer....

70 The plaintiffs argue that such cases stand for the principle that no outward manifestation of acceptance, beyond taking the service with notice of the conditions, is necessary to form a contract provided notice of the contractual terms has been sufficient.

71 The defendants assert that the "ticket cases" do not address the issue of whether a contract was formed at all. That is, they start from the proposition that the parties know they are entering into a contract and then the issue addressed is whether they have sufficient notice of the terms of the contract. They know that they have the option of accepting the service offered and entering into an agreement or rejecting the offered service. Despite the fact that in ticket cases most consumers likely do not read the fine print they do know that they are entering into an agreement. They know that they are purchasing a service. The defendants submit that what the ticket cases really address is the issue of notice of the terms of a contract. They submit that in the world of the Internet there is no awareness that accessing a website forms a contract.

72 While the ticket cases deal with notice of contractual terms, the principles applicable can, in my view, be equally applied to the issue of contract formation in the sense that the formation of a contract requires that a party have knowledge or notice of an offer in order to accept it or reject it.

73 If notice of the terms is sufficient, the issue in principle then becomes whether or not the terms are accepted by confirmation either by express agreement or by implied conduct. Communication of acceptance to the offeror is normally fundamental to the formation of a contract. However, the key issue is whether there is a bargain. Has the offeree accepted the terms in a manner which is "equivalent to acceptance": Waddams, S.M., *The Law of Contracts*, 6th ed. (Canada Law Book Inc.: Aurora, Ont., 2010) at 66-69. Conduct may constitute acceptance: Waddams at 75. In this case the defendant had clear notice of the terms hence the nub of the dispute between these parties is whether there has been communication by the defendant Zoocasa of their acceptance of an offer.

74 The defendants submit that, in the case of electronic communications, the option of acceptance or rejection of the contractual terms does not exist. They assert that a contract is not formed merely because they perform an activity that they have the right to do without a contract. They submit for example that in looking at a billboard no contract is formed. This latter example, however, ignores the fact that a billboard does not make an offer capable of a response. It is static while a website can make an offer that is capable of being responded to. It also ignores the fact that a website consists of multiple pages whereas a billboard does not. There is nothing the observer of a billboard does that is capable of indicating consent. The observer merely views the billboard. A user of a website can respond by accessing deeper layers (pages) of the website.

75 Fundamental to the defendants' argument is their assertion that a public website gives a right to access it without any contract. This begs the question before this Court, which is: can accessing a publically available website result in the formation of a contract? In addition, is there a distinction between merely accessing a website and the taking of subsequent steps to use the information on that website? The defendants' argument that a website is like a billboard, while perhaps a reasonable analogy to the first page of a website, ignores the active nature of an Internet website. A more apt analogy is that a website is like a book and the first page is simply the cover page or table of contents.

76 The defendants' position also implies that, by permitting public access to a website, the owner of that website loses any proprietary claims they may have in the information contained therein, other than those arising under copyright law.

77 The manner in which the web has developed with freely available access may differentiate a user's expectations of the web from the user of a service such as a bus, train or aircraft. While the expectation of a user may be that access is free and without restrictions, the Internet and its use is an evolving entity. As such, expectations change as does the sophistication of the user. In addition, it is not the users' expectation that is determinative. What they assume to be the case does not take precedence over the existence of an offer, notice of that offer and the act of acceptance. An erroneous expectation, even with legal advice, does not prevail.

78 The defendants say that the Terms of Use on the Century 21 Website did not create an enforceable agreement between Zoocasa and Century 21 under which Zoocasa was contractually bound not to index the Century 21 Website. They submit that:

- i. The Terms of Use are not structured to create a consensus *ad idem*, the basic and indispensable requirement for a contract, and that as a matter of fact there never was agreement that the Terms of Use were binding.
- ii. There is a lack of consideration.
- iii. The Terms of Use are not capable of creating an enforceable agreement.

79 The defendants state that the plaintiffs' position amounts to saying: "If you do something you have a right to do, I will say that you accepted a contract with me, even though I know you don't assent to the contract". They assert that a contract cannot be imposed in this way. This argument however starts from the erroneous proposition that the defendants have an unrestricted right of access.

80 The issues therefore are whether there was an offer, whether there was consensus or agreement, whether there was consideration, and whether an enforceable contract was created by Zoocasa accessing the Century 21 Website.

Was a Contract Formed?

81 There is limited Canadian jurisprudence on the subject of electronic contracts.

82 Sookman, *Computer, Internet and Electronic Commerce Law, loose leaf* (Carswell: Toronto, Ont., 1989) at 10.3 states:

One of the issues relevant to determining where and when an electronic contract has been concluded is to establish what constitutes an "offer" in an electronic commerce transaction. An "offer" is an intimation, by words or conduct of the willingness to enter into a legally binding contract, and which in its terms expressly or impliedly indicates that it is to become binding on the offeror as soon as it has been accepted by an act, forbearance or return promise on the part of the person to whom it is addressed. An offer is effected when it is communicated to the offeree and a wide variety of communications means may be used to make an offer including communications by mail, telegram, telex, fax and telephone. There are also no apparent reasons why offers may not be made electronically such as by electronic mail, or to an information processing device set up to receive contract offers. [Citations omitted.]

83 A consideration of Canadian and US authorities respecting the electronic formation of contracts reveals that courts have grappled with the changes in contract formation brought about by electronic communications including such matters as software

licences and contracts created over the Internet. Those changes have produced new descriptions of contracts such as "shrink wrap" agreements, "click wrap" agreements and "browse wrap" agreements.

Shrink Wrap Agreements

84 The earliest cases addressed the issue of software licensing agreements which purported to bind purchasers by virtue of their purchase and use of the software.

85 A seminal case that considered shrink wrap agreements is *ProCD Inc. v. Zeidenberg*, 86 F.3d 1447 (U.S. C.A. 7th Cir. 1996), where a purchaser of a CD-ROM containing a telephone directory was held bound by the shrink wrap agreement. The court, at para. 2 noted that:

(... The "shrinkwrap license" gets its name from the fact that retail software packages are covered in plastic or cellophane "shrink wrap," and some vendors, though not *ProCD* have written licenses that become effective as soon as the customer tears the wrapping from the package. Vendors prefer "end user license," but we prefer the more common term.) ...

86 In *ProCD Inc.* the outside of the box indicated that the purchase was subject to a licence and the licence appeared in the manual enclosed with the software. The licence also appeared on the computer when the software was used. The user had the opportunity to read the licence and accept its terms before using the software. The court held the terms were binding. In doing so they commented on other transactions where the consumer makes purchases before receiving the detailed contractual terms such as a traveler purchasing an airplane ticket.

87 In *North American Systemshops Ltd. v. King* (1989), 68 Alta. L.R. (2d) 145, 97 A.R. 46 (Alta. Q.B.), at 155, the Alberta Court held that a shrink wrap licence was not enforceable because the vendor did not properly notify the purchaser of any restriction on the use of the product:

In the case at bar, the plaintiff manifestly did not bring home to the defendants, or any of them, that there were restrictions on the purchase. None of the simple, cheap, obvious methods to do this were used by the plaintiff. No implied restrictions were necessary to the sale; therefore the court should not, in the absence of explicit instructions brought to the notice of the purchaser, introduce any implied restrictions into the contract of sale.

88 The result in *North American Systemshops Ltd.* turned on the lack of notice of the Terms of Use. The preponderance of authority in the US, provided notice is adequate, is that such an arrangement can result in an enforceable agreement.

Click Wrap Agreement

89 As technology evolved purchases of software occurred over the Internet with no box or physical medium being purchased. This led to the concept of the "click wrap" agreement. In such a situation the user indicates their agreement by clicking on an "I Agree" box.

90 In *Rudder v. Microsoft Corp.* (1999), 106 O.T.C. 381, 2 C.P.R. (4th) 474 (Ont. S.C.J.), Winkler J. upheld a click wrap agreement. At paras. 16 -17, Winkler J. stated:

16 It is plain and obvious that there is no factual foundation for the plaintiffs' assertion that any term of the Membership Agreement was analogous to "fine print" in a written contract. What is equally clear is that the plaintiffs seek to avoid the consequences of specific terms of their agreement while at the same time seeking to have others enforced. Neither the form of this contract nor its manner of presentation to potential members are so aberrant as to lead to such an anomalous result. To give effect to the plaintiffs' argument would, rather than advancing the goal of "commercial certainty", to adopt the words of Huddart J.A. in *Sarabia*, move this type of electronic transaction into the realm of commercial absurdity. It would lead to chaos in the marketplace, render ineffectual electronic commerce and undermine the integrity of any agreement entered into through this medium.

17 On the present facts, the Membership Agreement must be afforded the sanctity that must be given to any agreement in writing....

91 In *i.Lan Systems Inc. v. Netscout Service Level Corp.*, 183 F.Supp.2d 328 (U.S. Dist. Ct. D. Mass. 2002), the terms of the agreement appeared on the website after the purchase was made. The plaintiff was found to have consented to the agreement when it clicked the "I Agree" box. At 338 the court stated: "If *ProCD Inc.* was correct to enforce a shrink wrap licence agreement, where any assent is implicit, then it must also be correct to enforce a click wrap licence agreement, where the assent is explicit".

Browse Wrap Agreement

92 The final form of agreement referred to is a "browse wrap" agreement. A browse wrap agreement does not require that the purchaser indicate their agreement by clicking on an "I Agree" button. All that is required is that they use the product after being made aware of the product's Terms of Use.

93 In *Register.com Inc. v. Verio Inc.*, 126 F.Supp.2d 238 (U.S. Dist. Ct. S.D. N.Y. 2000), aff'd 356 F.3d 393 (U.S. C.A. 2nd Cir. 2004), *Register.com's* website contained their Terms of Use which stated that if the user accessed the database then the user agreed to the terms. The defendant submitted that simply making a query of the database was insufficient to indicate their consent. *Register.com* involved commercial parties where the defendant Verio accessed the plaintiff's computers daily and saw the Terms of Use each time they did so and admitted that they were aware of the terms. Verio conceded that its use of the data for solicitations by mail and telemarketing breached *Register.com's* Terms of Use. *Registrar.com* notified Verio that they were in breach of *Register.com's* Terms of Use. Verio argued that it was not bound because the notice was provided after the transaction occurred, not before. The United States Court of Appeals for the Second Circuit found that this argument would only succeed if Verio accessed *Register.com's* computers infrequently. The court held that Verio had notice of the terms because of its numerous daily queries and the presence of the Terms of Use after each query.

94 The Second Circuit Court of Appeals in *Register.com* held, at 403, that an express statement of agreement is not always required in either paper or online contracts:

...

We recognize that contract offers on the Internet often require the offeree to click on an "I agree" icon. And no doubt, in many circumstances, such a statement of agreement by the offeree is essential to the formation of a contract. But not in all circumstances. **While new commerce on the Internet has exposed courts to many new situations, it has not fundamentally changed the principles of contract. It is standard contract doctrine that when a benefit is offered subject to stated conditions, and the offeree makes a decision to take the benefit with knowledge of the terms of the offer, the taking constitutes an acceptance of the terms, which accordingly become binding on the offeree....**

[Emphasis added].

...

The court held that by taking the benefit of the information on *Register.com*, Verio accepted the offer of contract.

95 In *Kanitz v. Rogers Cable Inc.* (2002), 58 O.R. (3d) 299, 21 B.L.R. (3d) 104 (Ont. S.C.J.), the defendant sought to stay the action on the grounds that there was an agreement between the parties that provided for arbitration of all claims. The disputed agreement stated it was subject to amendment and that notice of amendments would be provided. The court held that notice of the amendments was sufficient and that, pursuant to the agreement, continued use indicated consent. As a result, conduct can imply consent.

96 The court also commented on the electronic environment as follows at paras. 32-33:

[32] I am also mindful, in reaching my conclusion on this point, of the fact that we are dealing in this case with a different mode of doing business than has heretofore been generally considered by the courts. We are here dealing with people who wish to avail themselves of an electronic environment and the electronic services that are available through it. It does not seem unreasonable for persons, who are seeking electronic access to all manner of goods, services and products along with information, communication, entertainment and other resources, to have the legal attributes of their relationship with the very entity that is providing such electronic access, defined and communicated to them through that electronic format.

[33] I conclude, therefore, that there was adequate notice given to customers of the changes to the user agreement which then bound the plaintiffs when they continued to use the defendant's service. Consequently, I find that there is an arbitration agreement between the parties.

97 In *Pollstar v. Gigmania Ltd.*, 170 F.Supp.2d 974 (U.S. Dist. Ct. E.D. Cal. 2000), Pollstar's website contained a notice that use of the website was subject to a licence agreement and that proceeding to retrieve any further information from the website was agreement to be bound by the terms of the licence agreement. On a motion by the defendant to dismiss, the court held that the licence was arguably valid and enforceable. They noted that this was so even though the notice was in small gray print on a gray background.

98 However, not all browse wrap agreements have been enforced. The defendants rely on *Specht v. Netscape Communications Corp.*, 306 F.3d 17 (U.S. C.A. 2nd Cir. 2002). In *Specht* the court rejected a browse wrap agreement for downloading software where the purchaser could download the software without seeing the notice of Terms of Use. The Terms of Use were only accessed if the purchaser scrolled down the page. There was no reason for them to do so, given they could access and download the software without needing to view the portions of the web page where the Terms of Use were posted.

99 *Specht* is a notice case. Presumably, if the notice of the terms had been prominently placed such that the notice was adequate, then the agreement would have been enforceable.

100 The *Specht* decision held that there are two requirements that must be met before a contract is found: first, that notice of the Terms of Use is clearly given; and, second, that there is clear assent to those terms by the user.

101 In the case at bar, the plaintiffs do not disagree that notice is required. They submit however, that acceptance of such terms does not require an express statement of agreement such as clicking on an "I Agree" button in order to access the Website or download information or software.

102 The Appeal Court in *Register.com* distinguished *Specht* as follows at 402:

...

Verio, however, cannot avail itself of the reasoning in *Specht*. In *Specht*, the users in whose favor we decided visited Netscape's web site one time to download its software. Netscape's posting of its terms did not compel the conclusion that its downloaders took the software subject to those terms because there was no way to determine that any downloader had seen the terms of the offer. There was no basis for imputing to the downloaders of Netscape's software knowledge of the terms on which the software was offered....

...

103 The real issue is whether the electronic nature of the transaction meets contractual requirements. In *Specht* the United States District Court Judge A. Hellerstein stated at 587:

Promises become binding when there is a meeting of the minds and consideration is exchanged. So it was at King's Bench in common law England; so it was under the common law in the American colonies; so it was through more than two centuries of jurisprudence in this country; and so it is today. Assent may be registered by a signature, a handshake, or

a click of a computer mouse transmitted across the invisible ether of the Internet. Formality is not a requisite; any sign, symbol or action, or even wilful inaction, as long as it is unequivocally referable to the promise, may create a contract.

...

104 The plaintiffs rely on *Canadian Real Estate Assoc./L'Assoc. Canadienne d'immeuble c. Sutton (Québec) Real Estate Services inc.*, [2003] J.Q. No. 3606 (C.S. Que.), 2003 CanLII 22519, in which Terms of Use were found to be enforceable for the purposes of an interlocutory injunction. The court emphasized that the respondent was aware of the Terms of Use and had its own browse wrap Terms of Use. In granting the injunction, the court stated at para. 44(g):

44 . . .

g. Sutton sait que des conditions d'utilisation s'appliquent et elle-même en impose aux utilisateurs de son propre site;

[TRANSLATION: Sutton knows that the user conditions apply and it even imposes similar user conditions on users of its website;]

...

105 The 67th District Court of Texas, in *American Airlines Inc. v. FareChase Inc.*, No. 067-194022-2 (Tex. 67th District Court, Tarrant County, Texas, Mar. 8, 2003), on a temporary injunction application, found that the defendant had violated *American Airline's* Terms of Use which prohibited use of their website for commercial purposes and that *American Airlines* had a probable right of recovery. The defendant FareChase used software to obtain copies of *American Airlines* flight schedules, seat availability and fares by giving users access to *American Airline's* computer system and website. Such access was contrary to the Terms of Use. FareChase continued to access the data despite notice to cease and desist. The court granted an interim injunction restraining the defendant's access to the plaintiff's website.

106 Initially in *Ticketmaster Corp. v. Tickets.Com Inc.*, 54 U.S.P.Q.2d 1344 (U.S. C.D. Cal. 2000) the California District Court refused a preliminary injunction against Tickets.com where the defendant had not been required to click an "I Agree" button. The plaintiff's website stated that going beyond that webpage was acceptance of their Terms of Use. Later however, after the plaintiff's website was modified to make the Terms of Use more prominent and to include a warning that proceeding further bound the user, the court denied the defendant's motion for summary judgment having found that the matter of the contract claim should proceed to trial. The court in *Ticketmaster Corp. v. Tickets.Com Inc.* [(March 7, 2003), Doc. CV 99-7654 HLH (U.S. C.D. Cal.)], 2003 U.S. Dist. Lexis 6483 at para. 6 stated:

... a contract can be formed by proceeding into the interior web pages after knowledge (or in some cases, presumptive knowledge) of the conditions accepted when doing so.

107 As noted in the authorities referred to above, the law of contract requires that the offer and its terms be brought to the attention of the user, be available for review and be in some manner accepted by the user. Such an analysis turns on the prominence the site gives to the proposed Terms of Use and the notice that the user has respecting what they are agreeing to once they have accepted the offer. To establish a binding contract consideration will also be given to whether the user is an individual consumer or a commercial entity and in addition a one-time user or a frequent user of the site.

108 Browse wrap agreements have the advantage of being readily available for perusal by the user. Their enforcement requires a clear opportunity for the user to read them which, given the nature of computer and the Internet, is likely to be a better opportunity than that available to the user of a product with a standard form contract presented at the time of purchase. A properly enforceable browse wrap agreement will give the user the opportunity to read it before deeming the consumer's use of the website as acceptance of the Terms of Use. In the case at bar, notice is not an issue given the defendant has acknowledged it was aware of the Terms of Use and what conduct was deemed to be acceptance. In addition, the defendant Zoocasa relies on similar Terms of Use on its own Website. The defendants have also acknowledged that the Century 21 Website Terms of Use are industry standard.

Public Policy Issue

109 The defendants submit that to accede to the plaintiffs' arguments, respecting the binding nature of the Terms of Use, would be contrary to public policy as it would have negative effects on the operation of the Internet. The defendants suggest that accepting use of a website as conduct that serves as acceptance sufficient to form a contract would imperil the operation of the Internet as it currently functions. The concerns expressed are that this would have a chilling effect on the function and structure of the Internet in Canada. They state that the plaintiffs' claims are vague and would lead to results contrary to the public interest.

110 The defendants concerns, at first blush, appear to have some substance. That is, it would seem inappropriate that by users simply accessing a website which contains terms and conditions they will be bound contractually as a result, despite not having overtly agreed to such.

111 The defendants' argument implies that all information that is made available on the web must be available to all without contractual restrictions. They go so far as to state that the existence of the Internet depends upon it and indexing and linking are essential to the operations of the World Wide Web. I do not accept that submission.

112 The World Wide Web industry itself has recognized that the owners of websites have the right to restrict access to some or all of the information on their site. For this reason protocols designed to enable a search engine to determine what it is permitted to be included and what it is not have been created. Implicit in such standards is the recognition that the information on the Internet is not open to all. In addition, it is an acknowledgment that restrictions do not in fact inhibit or negatively affect the operation of the Internet to an unacceptable degree.

113 In *Cyber-Surfing on the High Seas of Legalese: Law and Technology of Internet Agreements*, (2008) 18 Alb. L.J. Sci & Tech 69 at 121, Ty Tasker & Daryn Pakcyk, the authors state:

Further, there is no blanket presumption of open, public access to a web site just because it is accessible via the World Wide Web.

114 The evolution of the Internet as an "open" medium with its ability to hyperlink, being key to its success, does not mean it must function free of traditional contract law. It is simply the manner of contracting that has changed, not the law of contract. The acceptance of click wrap and browse wrap agreements acknowledges the right of parties to control access to, and the use of, their websites.

115 Just because a party chooses to do business on the Internet should not mean they relinquish their rights to control access to their business assets and information. The defendants' submission would deny that right to the plaintiff Century 21. In turn, that would decrease their motivation to create and operate their Website.

116 In my opinion, a publically available website does not necessarily give a right of access free of any contractual terms. Depending on the circumstances, a contract may be formed.

117 It is important for commercial efficacy that contract terms can be agreed upon as easily in the electronic world as in the world of paper. In my opinion, the defendants' suggestion that the Internet would be crippled by enforcing Terms of Use is incorrect. To render Terms of Use unenforceable would impair the utility and health of the Internet as creator's products would not be capable of contractual protection. If offerors could not place information on the Internet without some measure of control, its utility would be diminished.

118 The defendants argue that what Century 21 provides, in making their Website available to the public, (as opposed to an internal "Intranet"), is merely a grant of access to the site. The defendants' argument may be correct in part; however, when a user accesses a main page that merely places the user at Century 21's door. Entry is an additional step and one that website owners clearly control and users can undoubtedly choose to take.

119 Taking the service with sufficient notice of the Terms of Use and knowledge that the taking of the service is deemed agreement constitutes acceptance sufficient to form a contract. The act of browsing past the initial page of the website or searching the site is conduct indicating agreement with the Terms of Use if those terms are provided with sufficient notice, are available for review prior to acceptance, and clearly state that proceeding further is acceptance of the terms.

120 While courts may in the future face issues such as the reasonableness of the terms or the sufficiency of notice given to users or the issue of contractual terms exceeding copyright (or Parliament may choose to legislate on such matters), none of those issues arises in the present case for the following reasons:

- i. the defendants are sophisticated commercial entities that employ similar online Terms of Use themselves;
- ii. the defendants had actual notice of Century 21 Canada's Terms of Use;
- iii. the defendants concede the reasonableness of Century 21 Canada's Terms of Use, through their admissions on discovery and by their own use of similar Terms of Use.

121 By October 6, 2008, the defendants knew that the Century 21 Website had Terms of Use, and had read those Terms of Use as solicitors for Century 21 had, by letter dated October 6, 2008 to the defendants' solicitors, attached a copy of them. The defendants also knew by October 6, 2008 that Century 21 was taking the position that the Zoocasa Website was breaching those Terms of Use. The website notice and adequacy of such notice is therefore irrelevant.

Was There Consideration?

122 The defendants also argue that in offering access to their Website, Century 21 is not giving any promise of benefit and undertakes no burden and as a result there is no consideration. I do not find this in fact to be the case.

123 Clearly the databases created by developers of websites have value. Information has value. The evidence in this case is that Zoocasa has spent over \$6 million on its Website. Century 21 has expended over \$6,345,849.59 from 2006 to December 31, 2009. Zoocasa's actions in accessing the Century 21 Website and copying photographs, property descriptions and other information affirms that there is value. Presumably if the information was without value Zoocasa would not seek it or use it. In my opinion there is consideration for the contract as Zoocasa obtained the benefit of the information displayed on the Website.

Selective Litigation

124 The defendants further claim that acceding to the plaintiffs' claims for breach of contract would encourage selective and differential treatment of website visitors undertaking the same activity, who may not even be aware of the existence of the Terms of Use. Their concern appears to be that the plaintiffs are claiming against them when they are only doing what any other visitor to the Century 21 Website does, yet no others are being sued.

125 Firstly, the evidence does not support such a proposition. It has not been shown that others are in violation of either the Terms of Use or the copyright of the plaintiffs. Even if that were the case, it is the plaintiffs' right to decide who to pursue, not that of the defendants. Secondly, Zoocasa is distinguishable from the common consumer as they have a commercial purpose and are a sophisticated consumer.

126 There can be a myriad of reasons for a plaintiff to initiate an action in one instance and not in another. The decision is theirs.

The Automated Nature of Web Indexing

127 Does the fact that Internet search engines access sites such as those of Century 21 using search engines, crawlers and robots change the legal situation? In my view it does not.

128 The involvement of a machine in the contractual process was considered by Lord Denning long before the ubiquitous presence of personal computers and the Internet. In the 1970 decision *Thornton v. Shoe Lane Parking Ltd.* (1970), [1971] 1 All E.R. 686 (Eng. C.A.), the plaintiff parked his car in an automatic car park, purchased a ticket from a dispenser and parked. Lord Denning stated at 689:

...

... The customer pays his money and gets a ticket. He cannot refuse it. He cannot get his money back. He may protest to the machine, even swear at it; but it will remain unmoved. He is committed beyond recall. He was committed at the very moment when he put his money into the machine. The contract was concluded at that time. It can be translated into offer and acceptance in this way. The offer is made when the proprietor of the machine holds it out as being ready to receive the money. The acceptance takes place when the customer puts his money into the slot....

...

129 A machine or a computer and the software that runs it has at some point been constructed and programmed by an individual. As noted by Sookman at 10.5:

... an electronic agent, such as a computer program or other automated means employed by a person, is a tool of that person. Ordinarily, the employer of a tool is responsible for the results obtained by the use of the tool since the tool has not independent volition of its own. When computers are involved, the requisite intention flows from the programming and use of the computer."

I agree with this statement. Liability is not avoided by automating the actions in question.

130 In this instance, the defendant Zoocasa has acknowledged that, prior to indexing the Century 21 Website, the layout of that site was reviewed by an employee. In other words, the initial access was in fact not automated and an individual programmed the automated indexing. J. R. Langlois, the president of Zoocasa stated that:

When Zoocasa first indexes a website, a Zoocasa employee reviews the website, looks at the architecture of the site, and sets parameters for locating the desired items. Once the indexing has been set up, it is automatically repeated daily.

This was done to insure that particular information such as price, description, address, bedrooms, bathrooms and the agent and broker information was included.

131 While the Terms of Use were not posted when Zoocasa initially set up the automated indexing of the Century 21 Website, they were subsequently made aware of those terms.

Was a Contract Formed Between the Plaintiff Century 21 and the Defendant Zoocasa?

132 Zoocasa acknowledges it became aware of the existence of the Terms of Use after they were brought to their attention in October 2008. Mr. Lee, a representative of Zoocasa, admitted that by October 6, 2008, they knew that the Century 21 Website had Terms of Use and had read the Terms of Use. As a result, there is no issue respecting sufficient notice of the Terms of Use or their provisions. The defendants also acknowledge that the Century 21 Website Terms of Use are industry standard. They were also aware that if they did not agree to the Terms of Use then they should not use the Website. They knew as well that if they accessed the Website the Terms of Use purported to form a contract. Notwithstanding these admissions, the defendants state that at no time did they agree to be bound by the Terms of Use.

133 As a result, notice of the Terms of Use, knowledge of their content and their purported effect are not in issue. The sole issue is whether, with that notice and knowledge, Zoocasa's acts of accessing the Century 21 Website, formed an agreement.

134 As previously discussed, where notice of the Terms of Use is established along with the knowledge that using the Website will serve as agreement to the Terms of Use, then I am satisfied that agreement is proven. As noted in the browse wrap cases, the act of proceeding further into the website is sufficient to communicate agreement. I find that Zoocasa's conduct formed a contract. It is not a case of a contract being imposed without their assent.

135 However, the defendants also state that for there to be an enforceable contract there must be certainty over the terms of the contract. They note that the Terms of Use purport to allow Century 21 to unilaterally amend the Terms of Use from time to time and to terminate the agreement unilaterally at any time without notice and in its sole discretion. They state that if Century 21 takes no steps to obtain affirmative agreement to any such amendment or its process, then there is no enforceable agreement. In substance they rely on the principle that one party cannot arbitrarily and unilaterally end an agreement or change the terms of an agreement.

136 Century 21 confirms that there have been no changes to the Terms of Use that were posted on their Website on October 5, 2008. The Terms of Use are also not capable of retroactive change. Given there have been no changes since the Terms of Use were first posted, the plaintiffs rely on the Terms of Use posted on October 5, 2008. As a result of the foregoing, I do not need to further consider the issues that arise from unilateral changes without further notice.

137 The defendants also state that certain terms of the purported agreement are uncertain. They specifically identify the use of the word "scraping". As noted earlier, the experts differ on the precise meaning of "scraping". They do appear however to agree that it is a type of indexing. Dr. Levine defines it at para. 34 of his report as follows:

Specialized search engines sometimes use a modified indexing scheme informally known as "scraping". The distinction between scraping and regular indexing is that scraping looks for specific information located in known positions on selected web pages with known layouts, while indexing uses more general techniques to extract index terms from web pages without specific layouts or formats.

138 Century 21 does not dispute that the term is not well defined. Given my findings that Zoocasa has copied both property descriptions and photographs, regardless of whether the act of indexing was of a general nature or involved scraping, is not relevant to the issues in dispute. As a result, I do not need to delve further into whether it is presently capable of precise definition.

Allegations of Breach of Terms of Use

139 The Terms of Use prohibit a user from doing the following with content from the Century 21 Website:

- a. "copy" the content;
- b. "reproduce" the content;
- c. "save [the content] onto your own computer";
- d. "merge with other data";
- e. "frame in another website";
- f. "post on another website";
- g. "use the Content for any public, commercial or non-personal purpose";
- h. "display" or "disseminate" the content to another individual or entity;
- i. "screen scraping" or "database scraping" and "any other activity intended to collect, store, re-organize, summarize or manipulate any Content (whether via an automatic program or a manual process)";

- j. "accessing" the Century 21 Website in breach of the Terms of Use; and
- k. maintaining a link to the Century 21 Website after Century 21 has given notice that it has revoked its consent for such a link.

140 I find that Zoocasa has breached each of the above provisions. The evidence of the plaintiffs and the admissions of Zoocasa support findings that Zoocasa has, at the times in question, done the following:

- a. "copied" content from the Century 21 Website;
- b. "reproduced" the content of the Century 21 Website, such as property descriptions, on the Zoocasa Website;
- c. "saved" and stored the content onto Zoocasa's computer servers;
- d. "merged" the content taken from the Century 21 Website with other data on the Zoocasa Website;
- e. "framed" the Century 21 Website within the Zoocasa Website for a period of time;
- f. "posted" the content on another website being the Zoocasa Website;
- g. "used" the content for a "commercial" purpose;
- h. "displayed" and "disseminated" content taken from the Century 21 to the public on the Zoocasa Website;
- i. "accessed" the Century 21 Website for a commercial purpose;
- j. "maintained" a link to the Century 21 Website after Century 21 has given notice that it had revoked its consent for such a link.

141 I find that Century 21's Terms of Use constitute a binding contract between the parties, that Zoocasa had actual knowledge of the Terms of Use and in continuing its actions after notice of those Terms of Use, Zoocasa breached those terms.

Copyright

142 Copyright is a creature of statute. In *Compo Co. v. Blue Crest Music Inc.* (1979), [1980] 1 S.C.R. 357 (S.C.C.), at 372-373, Estey J. commented:

...

... copyright law is neither tort law nor property law in classification, but is statutory law. It neither cuts across existing rights in property or conduct nor falls between rights and obligations heretofore existing in the common law. Copyright legislation simply creates rights and obligations upon the terms and in the circumstances set out in the statute. This creature of statute has been known to the law of England at least since the days of Queen Anne when the first copyright statute was passed. It does not assist the interpretive analysis to import tort concepts. The legislation speaks for itself and the actions of the appellant must be measured according to the terms of the statute.

...

143 Sections 5 and 27 of the *Copyright Act* - R.S.C., 1985, c. c-42, provide that:

5. (1) Subject to this Act, copyright shall subsist in Canada, for the term hereinafter mentioned, in every original literary, dramatic, musical and artistic work if any one of the following conditions is met:

(a) in the case of any work, whether published or unpublished, including a cinematographic work, the author was, at the date of the making of the work, a citizen or subject of, or a person ordinarily resident in, a treaty country; ...

27. (1) It is an infringement of copyright for any person to do, without the consent of the owner of the copyright, anything that by this Act only the owner of the copyright has the right to do.

Plaintiffs' Position

144 The plaintiffs base their claim for copyright infringement on property descriptions and photographs. Copyright in the property descriptions and in the photographs lies with Bilash and Walton. However, each of Bilash and Walton licenced to Century 21 "use of the Works to promote the business of Century 21 Canada, including, without limitation, use on the Century 21 Canada's Website". In addition they assigned their right of action for copyright infringement to Century 21. As a result, Century 21 seeks damages for copyright infringement. In the alternative, if the Copyright Licence Agreements are not effective, then judgment is sought in favour of Bilash and Walton for copyright infringement.

Defendants' Position

145 The defendants say that the plaintiffs are proposing to apply an extreme reading of copyright law. They argue that Zoocasa's indexing and linking is not an infringement of copyright because linking and indexing by search engines on the Internet are integral to the functioning of the Internet. They further argue that policies that seek to impede linking across the Internet threaten the open nature of this system and public policy should discourage attempts to impose such impediments.

146 The defendants also take issue with who among the plaintiffs is entitled to advance a claim for breach of copyright.

Ownership of Copyright and Copyright Licence

147 The Copyright Licence Agreement dated December 2, 2008, licences Century 21 to use the Works of Nechako, Bilash and Walton (the "December Assignment"). The Works are defined as including photographs of properties offered for sale along with their descriptions and other details. It also assigns to Century 21 the right to bring an action for copyright infringement regarding the Works. Similar terms are found in the Copyright Licence Agreement dated February 12, 2010, between Century 21 and Charles Bilash Personal Real Estate Corporation (the "February Assignment").

148 Century 21 does not assert that they have a claim in copyright. Their claim is based upon the licences granted by the December Assignment and the February Assignment (the "Assignments") along with the assignment of the right to bring an action for copyright infringement.

149 Section 13 of the *Copyright Act* provides:

Ownership of Copyright

13. (1) Subject to this Act, the author of a work shall be the first owner of the copyright therein.

Assignments and licences

(4) The owner of the copyright in any work may assign the right, either wholly or partially, and either generally or subject to limitations relating to territory, medium or sector of the market or other limitations relating to the scope of the assignment, and either for the whole term of the copyright or for any other part thereof, and may grant any interest in the right by licence, but no assignment or grant is valid unless it is in writing signed by the owner of the right in respect of which the assignment or grant is made, or by the owner's duly authorized agent.

Ownership in case of partial assignment

(5) Where, under any partial assignment of copyright, the assignee becomes entitled to any right comprised in copyright, the assignee, with respect to the rights so assigned, and the assignor, with respect to the rights not assigned, shall be treated for the purposes of this Act as the owner of the copyright, and this Act has effect accordingly.

Assignment of right of action

(6) For greater certainty, it is deemed always to have been the law that a right of action for infringement of copyright may be assigned in association with the assignment of the copyright or the grant of an interest in the copyright by licence.

Exclusive licence

(7) For greater certainty, it is deemed always to have been the law that a grant of an exclusive licence in a copyright constitutes the grant of an interest in the copyright by licence.

150 In order for Century 21 to bring an action for copyright infringement with respect to the Works, the plaintiffs must establish who owns the copyright in the Works, whether the copyright has been validly assigned and the effective date of such assignment.

151 The defendants challenge the plaintiffs' assertions respecting who owns the Works on the basis that the plaintiffs did not indicate who specifically owned the Works until late in the day. They note as well that the further amended statement of claim advances several alternative assertions as to the ownership of the copyright in the Works and holds out Bilash and Walton as but two possible owners of copyright in the Works in addition to Bilash Corporation, In Town Realty and Century 21.

152 In the case of Mr. Walton, he writes his own property descriptions and takes his own pictures. On the day this action was started Walton entered into the December Agreement.

153 The defendants challenge the Agreements and describe that challenge as follows:

First, the "Works" are not defined with any specificity whatsoever. They are simply described as "certain works produced in connection with properties listed for sale in British Columbia by Bilash and Walton" which are said to "[i]nclude photographs of the properties listed for sale, property descriptions, and other property details."

Second, the Works are not even attributed to one person, but rather to Bilash, Walton, and Nechako Real Estate Ltd.

Third, there is no apparent provision for future-created works. Accordingly, it would appear that the only Works in respect of which Walton could assign a right to bring an action would be those created before December 2, 2008.

Fourth, there is no fixed term of the Agreement.

154 With respect to the first two objections, the specific Works and the ownership in those Works is a matter of evidence. In *EW Savory Ltd. v. World of Golf Ltd.*, [1914] 2 Ch. 566 (Eng. Ch.), at 568, the copyright holder in that case gave a written assignment to the plaintiffs for "five original card designs inclusive of all copyright" and "four golfing subjects". The defendants, much like the case at bar, challenged the validity of the assignment on the basis that the description of the subject-matter was not sufficient to validly assign copyright. Neville J. held that the court could admit parol evidence to identify the subject-matter of a contract and found that the copyright over the subject-matter that the plaintiffs claimed had been infringed was in fact the same subject-matter referred to in the assignment agreement. In the case at bar the agreement states that it covers properties listed by Bilash and Walton in British Columbia. In my view that description combined with the listings identified in the statement of claim and established by the evidence is sufficiently specific to identify the subject-matter of the assignment.

155 With respect to the lack of a provision relating to future created Works the agreement does not address the issue of past, present or future works. Copyright in a non-existent (future) work cannot be assigned, just as you cannot transfer property in non-existent land or goods. However, on the authority of *Performing Right Society Ltd. v. London Theatre of Varieties Ltd.*

(1923), [1924] A.C. 1 (U.K. H.L.), at 13 when a work that is not yet created is assigned, parties are treated in equity as promising to assign the future copyright once the work is created. At that point, the promisee becomes the equitable assignee and the beneficial owner of the copyright, and the promisor is the equitable assignor with a bare legal title: David Vaver, *Intellectual Property Law* (Irwin Law: Toronto, Ont, 1997) at 245. The power of assignment is not confined to an assignment of the legal property, but will apply to the transfer of any interest, whether legal or equitable: *Performing Right Society* at 18. As a result, the assignment of future created works is still valid in equity as between the parties provided it is made for valuable consideration. As soon as the works are created the copyright is validly assigned to the assignee.

156 See also *Ward, Lock & Co. v. Long*, [1906] 2 Ch. 550 (Eng. Ch.), where the court held that there can be an assignment in future works in the form of an agreement to assign.

157 As a result, unless specified otherwise, the assignment agreement applies generally to the Works produced relating to the properties listed by Bilash and Walton.

158 With respect to Bilash, they also challenge the agreement for similar reasons but in addition address the fact that Bilash did not write the property descriptions in issue. Rather the property descriptions in which he claims copyright were written by his employee Ms. Gray.

159 Section 13(3) of the *Copyright Act* provides as follows with respect to works created by an employee in the course of his or her employment:

13. (3) Where the author of a work was in the employment of some other person under a contract of service or apprenticeship and the work was made in the course of his employment by that person, the person by whom the author was employed shall, in the absence of any agreement to the contrary, be the first owner of the copyright, but where the work is an article or other contribution to a newspaper, magazine or similar periodical, there shall, in the absence of any agreement to the contrary, be deemed to be reserved to the author a right to restrain the publication of the work, otherwise than as part of a newspaper, magazine or similar periodical.

160 Ms. Gray had a written contract of employment with Bilash whereby, until January 1, 2009, Bilash personally paid Ms. Gray's salary. It is not disputed that until January 2009 copyright in the property descriptions resided in Bilash as Ms. Gray's employer. After January 2009, Ms. Gray continued to work for Bilash as his employee absent a written agreement.

161 However, in January 2009 Mr. Bilash incorporated a company. The evidence is that the corporation did not enter into an employment agreement with Ms. Gray. The only employment agreement was that between Bilash personally and Ms. Gray. However, Bilash also stated that he intended to declare her income for tax purposes as being paid from the corporation.

162 What I take from the evidence is that Bilash incorporated the company with the intention of running his real estate business through his corporation but, as is often the case, he did not formalize this change in relation to his own employment agreement nor the employment agreement with Ms. Gray. The evidence does not indicate if the corporation paid Ms. Gray from a corporate bank account. The evidence of Bilash in response to whom paid her salary was, "Well, when the taxes are going to be done, I mean, she's going to be taxed as an employee for Bilash Corporation."

163 I conclude that, at the time of hearing, Ms. Gray's existing employment agreement had not yet been cancelled or varied. Bilash remained her employer. As a result I am satisfied that Bilash retains copyright in Ms. Gray's work.

164 This finding would normally result in the conclusion as well that the assignment of copyright made by Bilash to Century 21 remains validly assigned. At first blush this may appear to have changed on February 12, 2010, when Bilash Corporation entered into the February Agreement with Century 21. That Agreement however specifically provides that "Bilash Corporation may be the owner of copyright ...". It is therefore only an assignment of such copyright as Bilash Corporation may own.

165 With respect to the photographs, Bilash stated that he hired the photographers. However, he also stated he carried on business through his corporation. He did not state his corporation hired the photographers. He did acknowledge that his company paid them.

166 It is clear from the affidavit and discovery evidence that Bilash has a layman's appreciation of the impact of incorporation which I infer was done primarily for tax purposes. He appears to operate on the basis that his accountant at the end of the year determines what is corporate and what is personal. No documentary evidence was produced indicating any written agreement respecting the photographs as apparently none exists. Nor was there evidence that Bilash informed those photographers that they were now dealing with his company, not him.

167 I conclude on the balance of probabilities that Bilash personally continued to contract with the photographers and that this arrangement did not change.

168 On the basis of my conclusion respecting the employment status of Ms. Gray and Bilash's practice with respect to hiring photographers, I find that after Bilash incorporated, the copyright in the property descriptions created by Ms. Gray and the copyright in the photographs Bilash hired to be taken, remained that of Bilash. Bilash Corporation has no copyright to assign.

169 Given these findings the nature and effect of the December and February Copyright Licence Agreements must be considered.

Copyright Licence Agreement

170 As noted earlier in preparation for these proceedings and in order to enable Century 21 to claim for copyright infringement, Bilash, Walton and Bilash Corp. each executed a Copyright Licence Agreement (the "Agreements") that purport to assign their interest in copyright to Century 21.

171 The operative portion of each of the Agreements reads as follows:

Permitted Uses

During the term of this Agreement, Century 21 Canada may:

- (i) use the Works to promote the business of Century 21 Canada, including, without limitation, use on Century 21 Canada's website; and
- (ii) subject to the consent of [copyright holder], which consent shall not be unreasonably withheld, use, copy and reproduce, incorporate, adapt and otherwise utilize the Works, in whole or in part, and any derivatives thereof. If any derivative work based upon the Works is created by or for Century 21 Canada for its use, [copyright holder] shall be entitled to own the copyright therein and the derivative work shall be subject to the terms of this Agreement.

Assignment of Right of Action

[Copyright holder] assigns to Century 21 Canada the right to bring an action for copyright infringement with respect to the Works.

172 The Agreements are described as "Copyright Licence Agreements". An issue arises between the purported licence to use the Works and the effect of the assignment of the right of action for copyright infringement.

173 As noted in John McKeown, *Fox Canadian Law of Copyright*, 3d ed. (Carswell: Scarborough, Ont., 2000) [*Fox Canadian Law of Copyright*] at 380:

The fact that the document describes the grantor as the licensor and the grantee as the licensee may be immaterial if the intent to be gathered from the document as a whole is that it is to operate as an assignment and not a licence. Frequently, the terms are used indiscriminately. The court must look to the substance of the transaction, not its form. [Citations omitted.]

174 An assignment is a transfer of a right such that the assignee is the owner of the legal interest in the right and the assignor is left without any control over the right transferred, except for moral rights. Under a licence, the licensee is given permission to do certain acts which might otherwise constitute infringement of the licensor's rights and does not involve any change of ownership in the copyright: *Marquis v. DKL Technologies Inc.* (1989), 24 C.I.P.R. 289 (C.S. Que.); *Fox Canadian Law of Copyright*, at 380.

175 In this instance, the terms of the licence simply grant to Century 21 the use of the Works. It is not even an exclusive use. The copyright holder clearly retains the copyright including any other use or derivative use of the Works. In addition, the use of the Works is pursuant to the ongoing consent of the party which holds copyright, rather than an outright assignment of the copyright in the Works. As a result, I am of the view that what Bilash, Walton and Bilash Corporation purport to grant as an assignment is in fact a licence.

176 What then is the effect of the assignment to Century 21 of the right to bring an action for copyright infringement with respect to the Works?

177 The right to assign a right of action arises from s. 13 of the *Copyright Act* ss. 6 and 7 which I will repeat for convenience:

Assignment of right of action

(6) For greater certainty, it is deemed always to have been the law that a right of action for infringement of copyright may be assigned in association with the assignment of the copyright or the grant of an interest in the copyright by licence.

Exclusive licence

(7) For greater certainty, it is deemed always to have been the law that a grant of an exclusive licence in a copyright constitutes the grant of an interest in the copyright by licence.

178 The right is procedural and grants to the licensee the authority to enforce the rights of the copyright holder to the extent they are granted under the terms of the assignment or exclusive licence.

179 The licence in this instance is not exclusive as it fails to state such. It simply grants a right to Century 21 to use the Works. Century 21 does not possess a proprietary interest or the grant of an interest in the infringed works. As a result, Century 21 can only enforce licencing, not copyright, infringement to the limited extent granted to it by the licence. In this case, that is the right to use the Works. However, as the licence that Century 21 holds is not exclusive, the assignment of the right of action to enforce copyright infringement is moot.

180 The claims for copyright infringement therefore lie with Bilash and Walton, not Century 21. The claim of Century 21 for copyright infringement is dismissed.

Discussion of Copyright

181 The initial issue is whether the property descriptions and photographs used by the plaintiffs are entitled to copyright protection. The work must have some "literary character". The work must provide "information, instruction or ... literary enjoyment" and the "author must bestow some brainwork upon a work and that a work must not be a 'mere collection of copies of public documents'": John McKeown, *Fox Canadian Law of Copyright and Industrial Designs*, 4th ed. looseleaf (Toronto: Carswell, 2003), at s. 7:4 [Fox].

182 In *CCH Canadian Ltd. v. Law Society of Upper Canada*, 2004 SCC 13 (S.C.C.), at paras. 16-17 the Supreme Court of Canada discussed what kind of work is entitled to copyright protection:

16 For a work to be "original" within the meaning of the *Copyright Act*, it must be more than a mere copy of another work. At the same time, it need not be creative, in the sense of being novel or unique. What is required to attract copyright protection in the expression of an idea is an exercise of skill and judgment. By skill, I mean the use of one's knowledge, developed aptitude or practised ability in producing the work. By judgment, I mean the use of one's capacity for discernment or ability to form an opinion or evaluation by comparing different possible options in producing the work. This exercise of skill and judgment will necessarily involve intellectual effort. The exercise of skill and judgment required to produce the work must not be so trivial that it could be characterized as a purely mechanical exercise. For example, any skill and judgment that might be involved in simply changing the font of a work to produce "another" work would be too trivial to merit copyright protection as an "original" work.

17 In reaching this conclusion, I have had regard to: (1) the plain meaning of "original"; (2) the history of copyright law; (3) recent jurisprudence; (4) the purpose of the *Copyright Act*; and (5) that this constitutes a workable yet fair standard.

183 Works used for commercial purposes are also entitled to copyright protection. For example, an advertisement inserted in a newspaper has been held entitled to copyright protection: *Fox Canadian Law of Copyright* at s. 4:6; *Slumber-Magic Adjustable Bed Co. v. Sleep-King Adjustable Bed Co.* (1984), [1985] 1 W.W.R. 112, 28 A.C.W.S. (2d) 371 (B.C. S.C.). In *Slumber-Magic*, McLachlin J. stated at 115:

...

The question is whether the plaintiff had copyright in the brochure? In my opinion, it did. The defendants suggest that there is no copyright in the brochure because it used ideas and elements which are also found in the brochures of other competitors. That, however, does not defeat a claim for copyright. It is well established that compilations of material produced by others may be protected by copyright, provided that the arrangement of the elements taken from other sources is the product of the plaintiff's thought, selection and work. It is not the several components that are the subject of the copyright, but the overall arrangement of them which the plaintiff through his industry has produced. The basis of copyright is the originality of the work in question. So long as work, taste and discretion have entered into the composition, that originality is established. In the case of a compilation, the originality requisite to copyright is a matter of degree depending on the amount of skill, judgment or labour that has been involved in making the compilation: *Ladbroke (Football) Ltd., v. William Hill (Football) Ltd.*, [...] [1964] 1 All E.R. 465 (H.L.)....

184 In *Ladbroke (Football) Ltd. v. William Hill (Football) Ltd.*, [1964] 1 All E.R. 465 (U.K. H.L.), at 469 Lord Reid said:

... Copyright gives the exclusive right to do certain things including "reproducing the work in any material form",... and reproduction includes reproduction of a substantial part of the work.... Broadly, reproduction means copying, and does not include cases where an author or compiler produces a substantially similar result by independent work without copying. If he does copy, the question whether he has copied a substantial part depends much more on the quality than on the quantity of what he has taken. One test may be whether the part which he has taken is novel or striking, or is merely a commonplace arrangement of ordinary words or well-known data. So it may sometimes be a convenient short cut to ask whether the part taken could by itself be the subject of copyright. **But, in my view, that is only a short cut, and the more correct approach is first to determine whether the plaintiff's work as a whole is "original" and protected by copyright, and then to inquire whether the part taken by the defendant is substantial.** A wrong result can easily be reached if one begins by dissecting the plaintiff's work and asking, could section A be the subject of copyright if it stood by itself, could section B be protected if it stood by itself, and so on. To my mind, it does not follow that, because the fragments taken separately would not be copyright, therefore the whole cannot be. Indeed, it has often been recognised that if sufficient skill and judgment have been exercised in devising the arrangements of the whole work, that can be an important or even decisive element in deciding whether the work as a whole is protected by copyright.

[Emphasis added].

185 The property descriptions describe particular real properties. They are created to market the property to potential buyers. It is apparent they are written for each property in a manner to highlight the positive aspects of the properties. There is also the evidence of Bilash and Walton that there is some level of skill involved in writing an effective property description. I am satisfied that the property descriptions are the product of skill and judgment. As a result they meet the threshold for copyright protection.

186 Section 13(2) of the *Copyright Act* provides as follows with respect to photographs:

13. (2) Where, in the case of an engraving, photograph or portrait, the plate or other original was ordered by some other person and was made for valuable consideration, and the consideration was paid, in pursuance of that order, in the absence of any agreement to the contrary, the person by whom the plate or other original was ordered shall be the first owner of the copyright.

187 With respect to the photographs in question, the requirement for originality is low and can arise from the choice of subject matter, the creation of the scene, the angle of the photograph or other factors: *Fox Canadian Law of Copyright* at s. 10:11(c). Again, I am satisfied that they satisfy the originality requirements of the *Copyright Act* and they are entitled to copyright protection.

188 Bilash deposed that he retained a professional photographer to take photographs of each property that he was hired to market as the listing agent. Ms. Gray arranged for photographers to take photographs of the property. Bilash ordered and paid for the original electronic files of the digital images so that he could copy and use them as he saw fit in his marketing campaigns, as opposed to ordering just prints of the photographs. Prior to January 1, 2009, the money to pay the photographers came from Bilash's personal account. From January 1, 2009, onwards, the money to pay the photographers came from the account of Bilash Corporation.

189 I am satisfied that Bilash owns copyright in the photographs pursuant to s. 13(2) given he ordered them, they were made for valuable consideration, he paid for the originals and there was no agreement between him and the photographers to the contrary.

190 Walton owns the copyright in the five property descriptions written by him which are the subject matter of his claim. Bilash owns the copyright in the property descriptions written by his assistant Ms. Gray as she was his employee: s. 13(3) *Copyright Act*. With respect to the photographs ordered and paid for by him he also owns the copyright in them: s. 13(2) *Copyright Act*.

Infringement of Copyright

191 Section 2 of the *Copyright Act* defines "infringing" as: "in relation to a work in which copyright subsists, any copy, including any colourable imitation, made, or dealt with in contravention of this *Act*."

192 Section 27(1) of the *Copyright Act* prohibits copyright infringement as follows:

It is an infringement of copyright for any person to do, without the consent of the owner of the copyright, anything that by this *Act* only the owner of the copyright has the right to do.

193 Section 3(1) in turn provides the owner of copyright with the sole right to do the following:

For the purposes of this *Act*, "copyright", in relation to a work, means the sole right to produce or **reproduce the work or any substantial part thereof in any material form whatever, ...**

...

and to authorize any such acts.

[Emphasis added]

194 In order to find copyright infringement, a plaintiff must prove copying of the work or a substantial part thereof and access to the copyright protected work: *Kantel v. Grant*, [1933] Ex. C.R. 84 (Can. Ex. Ct.), at 96. Determining whether a substantial part of the work has been taken is a question of fact: *King Features Syndicate Inc. v. Lechter*, [1950] Ex. C.R. 297 (Can. Ex. Ct.); *U & R Tax Services Ltd. v. H & R Block Canada Inc.* (1995), 62 C.P.R. (3d) 257 (Fed. T.D.), at para 35. For example, in *Hawkes & Son (London) Ltd. v. Paramount Film Service Ltd.*, [1934] Ch. 593 (Eng. C.A.) a film reproduced 20 seconds of the 4 minute long Colonel Bogey March. The portion reproduced was the principal air of the march. The court held that given the portion reproduced was clearly recognizable as the Colonel Bogey March what was reproduced was, in the words of Slessor, L.J., "a substantial, a vital, and an essential part". He also noted that "other matters beyond mere quantity may and have to be looked at."

Has There Been Infringement?

195 Zoocasa admits that it copied the property descriptions and photographs belonging to Bilash and Walton onto its servers. It also admits that it indexed the Century 21 Website and that it indexed all the property listings found within the Website. That indexing included the URL, price, MLS description, address, province, city, bedrooms, bathrooms, lot size, listing style, year built, status, taxes, storeys, agent name, agent email, agent title, agent website, broker name, broker email, broker phone, broker address, broker website and image URL.

196 For each property listing that it indexed until approximately November 20, 2008, Zoocasa copied, among other things, the full property description and one photograph onto its servers. That information was stored in Zoocasa's database. After November 20, 2008, Zoocasa displayed a truncated portion of the description but continued to copy the whole description and a photograph onto its servers.

197 Given the admissions of Zoocasa all of the listings of Walton and Bilash were accessed as described. The plaintiffs have chosen to rely on a total of 128 Works consisting of 29 property descriptions and 99 photographs that were copied. While Zoocasa disputes that certain of the 128 Works were in fact copied by their company, I am satisfied based on the evidence of Bilash, Walton, WTL and the notices to admit that at least 29 property descriptions and 99 photographs were copied. Zoocasa's disagreement appears to be based on their inability to match certain of the property descriptions to their records rather than a denial that the Works were copied.

198 The breakdown of those 128 Works are that 24 of the property descriptions and 99 photographs are owned by Bilash and 5 property descriptions belonging to Walton were copied. The defendants assert that they did not display a substantial portion of the plaintiffs' Works. They refer to "snippets" having been copied. While that may be the case once they reverted to truncated property descriptions, the previous copying of the complete written property descriptions cannot, in my view, be described as a "snippet".

199 What is substantial is not simply a question of quantity. Other factors relevant to the question of whether the taking was "substantial" are the importance of the part, the nature of the work and the use of the work to compete with the copyright holder.

200 An example of a property description characteristic of those copied is:

175 W 39th

A Stunning Cambie Bungalow home with basement that is the perfect for any family without breaking the bank!!

This is a gorgeous completely renovated home, located in the fantastic Cambie neighborhood just steps to the Queen E Park, Oakridge Shopping Centre, walking distance to the new Canada Line.

Major renovations include new drain tiles, new electrical/wiring, new roof, new double paned windows, new exterior and interior paint, new backyard & fence with 700 sq ft large cedar entertaining deck, permanent outdoor kids play area and much more.

Beautifully finished living spaces including a brand new chef's kitchen with superior quality Jenn Air appliances including built in fridge, gas stove, dishwasher, trash compactor, built in microwave, industrial quality canopy hood fan plenty of solid wood shaker style cabinetry and granite countertops.

Enjoy your view to the deck and children's play area through the large double windows.

The French doors off both the kitchen and dining room area open to the fantastic cedar deck with glass railings.

Completely new bathrooms with custom imported tumbled marble stonework; oversize soaker jet tub; Italian travertine flooring and chrome fixtures.

Other features of this home include re-finished solid oak flooring throughout, recessed pot lighting on both levels; cozy gas fireplace with a travertine surround and solid wood mantle; original cove ceiling in the living room; all brand new double paned windows with white trims; designer color scheme throughout with solid wood 8 inch baseboards and new smooth ceiling finish.

Main level features the huge master bedroom with tons of custom built closet space. Follow the open railed staircase which leads you downstairs to 2 spacious bedrooms with cream Berber carpets there is also a perfect wine cellar space; a great family room; den area; brand new bathroom; laundry room with side by side Maytag appliances and a separate entrance to the backyard.

This wide lot has an excellent level front yard with great landscaping for a clean contemporary look. The entire street has great curb appeal and is a very quiet family neighbourhood. Approximately \$250,000 spent in renovations; all you need to do is move in. Please call for price.

201 In my view, such property descriptions were a substantial portion of each real estate listing page on the Century 21 Website, not only with respect to quantity but also in their overall significance respecting the property listing described.

202 An example of the truncated property description which Zoocasa commenced using in November 2008 is:

212-819 Hamilton St, Vancouver, B.C. V6Z 6M2 \$285,000 - 1 Bed, 1 Bath - Great Newly Updated Jr 1 Bedroom at 819 Hamilton. This is a great West facing 1 bedroom suite which has lots of great...

203 I find that the practice of Zoocasa, from its inception until November 2008, of indexing and copying the entire property description was, in the words of Slessor, L.J. in *Hawkes*, "the indexing and copying of a substantial, a vital, and an essential part" of the plaintiffs' Works.

204 The continued copying of the entire property description to the Zoocasa server is a violation of copyright. The truncated versions of the property description in my view do not infringe copyright as they do not meet the criteria for substantial copying sufficient for copyright infringement.

205 With respect to the photographs, Zoocasa was not merely copying a thumbnail image as in the case of *Kelly v. Arriba Soft Corp.*, 336 F.3d 811 (U.S. C.A. 9th Cir. 2003), but rather the entire photograph. This was a clear violation of copyright.

Defences to Copyright Infringement

206 Section 29 of the *Copyright Act* creates an exception for copyright infringement known as the fair dealing exception. Once it has been shown that copyright has been infringed without permission of the copyright holder, the defendant may plead relief under the fair dealing provisions of the *Copyright Act*. The *Copyright Act* creates a two-part test for determining if fair dealings are exempted from copyright infringement. First, the dealing must be fair and second, it must be done for the purpose of research, private study, criticism, review, or news reporting all of which must be without motive or gain. The leading case in Canada concerning fair dealing is *CCH* cited above at para. 181.

207 In *CCH* at paras. 9-10, the Supreme Court of Canada discussed copyright infringement as follows:

9 In Canada, copyright is a creature of statute and the rights and remedies provided by the *Copyright Act* are exhaustive: see *Théberge v. Galerie d'Art du Petit Champlain inc.*, [2002] 2 S.C.R. 336, 2002 SCC 34, at para. 5; *Bishop v. Stevens*, [1990] 2 S.C.R. 467, at p. 477; *Compo Co. v. Blue Crest Music Inc.*, [1980] 1 S.C.R. 357, at p. 373. In interpreting the scope of the *Copyright Act's* rights and remedies, courts should apply the modern approach to statutory interpretation whereby "the words of an Act are to be read in their entire context and in their grammatical and ordinary sense harmoniously with the scheme of the Act, the object of the Act, and the intention of Parliament": *Bell ExpressVu Limited Partnership v. Rex*, [2002] 2 S.C.R. 559, 2002 SCC 42, at para. 26, citing E. A. Driedger, *Construction of Statutes* (2nd ed. 1983), at p. 87.

10 Binnie J. recently explained in *Théberge*, *supra*, at paras. 30-31, that the *Copyright Act* has dual objectives:

The *Copyright Act* is usually presented as a balance between promoting the public interest in the encouragement and dissemination of works of the arts and intellect and obtaining a just reward for the creator

The proper balance among these and other public policy objectives lies not only in recognizing the creator's rights but in giving due weight to their limited nature.

In interpreting the *Copyright Act*, courts should strive to maintain an appropriate balance between these two goals.

208 The Supreme Court of Canada, in *CCH*, at para. 53 adopted from the appeal decision of Linden J.A. in the Federal Court of Appeal and in *Hubbard v. Vosper* (1971), [1972] 1 All E.R. 1023 (Eng. C.A.), at 1027, "as well as the doctrine of fair use in the United States" certain factors to be considered when assessing fair dealing identified as follows:

...

- (1) the purpose of the dealing;
- (2) the character of the dealing;
- (3) the amount of the dealing;
- (4) alternatives to the dealing;
- (5) the nature of the work; and
- (6) the effect of the dealing on the work.

...

209 These factors are neither essential nor exhaustive. Not all of these factors will arise in every instance and in some contexts there may be factors other than those listed that will be relevant to a determination of whether the dealing was fair.

The Application of the Principles of CCH

Fair Dealing

210 Both parties refer to American authorities. In doing so the comments of Estey J. in *Compo* at 367, and relied upon in *Galerie d'art du Petit Champlain inc. c. Théberge*, 2002 SCC 34 (S.C.C.) at para. 72, must be kept in mind:

72 ...

... United States court decisions, even where the factual situations are similar, must be scrutinized very carefully because of some fundamental differences in copyright concepts which have been adopted in the legislation of that country.

211 Zoocasa admits to indexing the Century 21 Website and that up to March 4, 2010, it indexed all of the property listings and a photograph for each of the listings on the Century 21 Website.

212 The defendants have pleaded that their copying of the plaintiffs' Works constitutes "fair dealing" under the *Copyright Act*. Section 29 of the *Copyright Act* provides an exception from infringement for "fair dealing":

29 Fair dealing for the purpose of research or private study does not infringe copyright.

213 To qualify for the fair dealing exception, the defendant must prove that the dealing was for a permitted purpose such as research or private study and that the dealing was fair: *CCH* at para. 50.

214 The court in *CCH* further commented on fair dealing as follows at paras. 48 and 50-52:

48 Before reviewing the scope of the fair dealing exception under the *Copyright Act*, it is important to clarify some general considerations about exceptions to copyright infringement. Procedurally, a defendant is required to prove that his or her dealing with a work has been fair; however, the fair dealing exception is perhaps more properly understood as an integral part of the *Copyright Act* than simply a defence. Any act falling within the fair dealing exception will not be an infringement of copyright. The fair dealing exception, like other exceptions in the *Copyright Act*, is a user's right. In order to maintain the proper balance between the rights of a copyright owner and users' interests, it must not be interpreted restrictively. As Professor Vaver, *supra*, has explained, at p. 171: "User rights are not just loopholes. Both owner rights and user rights should therefore be given the fair and balanced reading that befits remedial legislation."

...

50 In order to show that a dealing was fair under s. 29 of the *Copyright Act*, a defendant must prove: (1) that the dealing was for the purpose of either research or private study and (2) that it was fair.

51 The fair dealing exception under s. 29 is open to those who can show that their dealings with a copyrighted work were for the purpose of research or private study. "Research" must be given a large and liberal interpretation in order to ensure that users' rights are not unduly constrained. I agree with the Court of Appeal that research is not limited to non-commercial or private contexts. The Court of Appeal correctly noted, at para. 128, that "[r]esearch for the purpose of advising clients, giving opinions, arguing cases, preparing briefs and factums is nonetheless research." Lawyers carrying on the business of law for profit are conducting research within the meaning of s. 29 of the *Copyright Act*.

52 The *Copyright Act* does not define what will be "fair"; whether something is fair is a question of fact and depends on the facts of each case. See McKeown, *supra*, at p. 23-6. Lord Denning explained this eloquently in *Hubbard v. Vosper*, [1972] 1 All E.R. 1023 (C.A.), at p. 1027:

It is impossible to define what is 'fair dealing'. It must be a question of degree. You must consider first the number and extent of the quotations and extracts. Are they altogether too many and too long to be fair? Then you must consider the use made of them. If they are used as a basis for comment, criticism or review, that may be a fair dealing. If they are used to convey the same information as the author, for a rival purpose, that may be unfair. Next, you must consider the proportions. To take long extracts and attach short comments may be unfair. But, short extracts and long comments may be fair. Other considerations may come to mind also. But, after all is said and done, it must be a matter of impression. As with fair comment in the law of libel, so with fair dealing in the law of copyright. The tribunal of fact must decide.

Purpose of the Dealing

215 The plaintiffs' assert that Zoocasa's purpose or motive is purely commercial. It generates money from advertising including advertising on the pages of property descriptions on which the plaintiffs' listings and data appeared. This they say can result in a finding that its use "may not be as fair": *CCH* at para. 54.

216 Zoocasa argues that the purpose of the dealing will be fair if it is for one of the allowable purposes under the *Copyright Act*, namely research, private study, criticism, review, or news reporting. They note that in *Public Performance of Musical Works, Re, 2010 FCA 123* (F.C.A.) [*SOCAN*] at paras. 17-20, the Federal Court of Appeal held that "research" included "the action or instance of searching carefully for a specified thing or person" and that commercial research by a consumer qualified as research. Further, the purpose of the dealing in question was to be considered from the point of view of the person for whom the dealings were intended. They argue that the plaintiff is focusing on the purpose of profit as opposed to the purpose for which the dealing was intended.

217 Zoocasa states that in providing search results and "snippets" of the copyrighted Works to the users to determine if they wish to access the source website they are engaging in an activity that falls within the scope of "research" as contemplated by the *Copyright Act*. That is, it enables individuals to research real property listings.

Discussion of Purpose of the Dealing

218 It is not disputed that Zoocasa's motive is commercial. While apparently not yet profitable, it is endeavouring to generate income by selling advertising space on the web pages on which the plaintiffs' listings and data appear.

219 Century 21's primary purpose is to list and sell real property. Their Website is not simply a vehicle for advertising; rather it is to promote their property listings to potential buyers.

220 The Supreme Court of Canada in *CCH* states that research, even if commercial in nature, may be fair. However, as noted by the Supreme Court of Canada, at para 54, "some dealings, even if for an allowable purpose, may be more or less fair than others; research done for commercial purposes may not be as fair as research done for charitable purposes." Also, as quoted in *CCH* at para. 52 from *Hubbard*, "[i]f they are used to convey the same information as the author, for a rival purpose, that may be unfair".

221 Additionally, the Federal Court of Appeal in *SOCAN* at para. 22, held that when assessing if a dealing was fair the dealing must be considered "from the point of view of the person for whom they are intended: the consumer of the subject-matter of the copyright." The issue in *SOCAN* was whether 30 second previews of musical works available on the Internet were subject to royalty payments. The court agreed with the Copyright Board's decision that the length of each preview in proportion to the length of the completed work was considered fair as the user's objective was research, in that case, the seeking and finding of a desired musical work.

222 The commercial aspect is therefore not determinative but is one of the factors to be taken into account. The nature of the commercial aspect however can vary. When the intended use of copyrighted material is to generate revenue in competition to the copyright holder the use may be less fair. However, if the purpose produces a value to the public interest that may be more fair. If however the first factor, that of revenue to the user outweighs any public benefit, then the use may not be fair.

Character of the Dealing

223 The plaintiffs emphasize that custom or practice in a particular trade or industry is relevant in determining whether or not the character of the dealing is fair: *CCH*, at para. 55. The plaintiffs place considerable emphasis on Zoocasa's failure to abide by the Robot Exclusion Standard.

224 The defendants emphasize that the focus of the inquiry at this stage is "how the Works were dealt with". They state that the plaintiffs, in focusing on the remark in *CCH* that it "may be relevant to consider the custom or practice in a particular trade or industry", are ignoring the analysis required by *CCH*, that is, how were the Works dealt with?

225 They assert that the Robot Exclusion Standard is irrelevant to the fair dealing analysis because all it does is permit indexing or permit indexing of some pages and not others or does not permit indexing at all.

Discussion of Character of the Dealing

Transformative Use

226 In the US the concept of "fair dealing" is described as "fair use". The defendant argues that American jurisprudence has developed four factors similar to those listed in *CCH* the first of which is the "purpose and character of the use". In doing so they place particular emphasis on the US concept of "transformative use".

227 In *Perfect 10 Inc. v. Amazon.com Inc.*, 508 F.3d 1146 (U.S. C.A. 9th Cir. 2007), the Ninth Circuit Court of Appeals considered the public importance of search engines and the "transformative" nature of their use of copyrighted material. *Perfect 10* involved a copyright owner's efforts to stop an Internet search engine from facilitating access to infringing images.

228 The Court in *Perfect 10* stated at para. 1164:

...

... A work is "transformative" when the new work does not "merely supersede the objects of the original creation" but "adds something new, with a further purpose or different character, altering the first with new expression, meaning, or message"....

...

229 In considering whether the use of thumbnails by search engines was transformative the court commented at para. 1165:

...

Google's use of thumbnails is highly transformative. In *Kelly*, we concluded that Arriba's use of thumbnails was transformative because 'Arriba's use of the images serve[d] a different function than Kelly's use-improving access to information on the [I]nternet versus artistic expression. Although an image may have been created originally to serve an entertainment, aesthetic, or informative function, a search engine transforms the image into a pointer directing a user to a source of information. Just as a "parody has an obvious claim to transformative value" because "it can provide social benefit, by shedding light on an earlier work, and, in the process, creating a new one," a search engine provides social benefit by incorporating an original work into a new work, namely, an electronic reference tool. Indeed, a search engine may be more transformative than a parody because a search engine provides an entirely new use for the original work, while a parody typically has the same entertainment purpose as the original work." ... [Citations omitted].

230 Zoocasa argues that by indexing the property listings in question, they transformed them from advertisements of properties for sale into an electronic reference tool, or a signpost, indicating where the property listing could be found. They say that the character of use in creating the signpost is entirely different from the purpose of the property listings in question. They submit, for example, that brokers or real estate salespeople create property listings to advertise properties for sale while Zoocasa creates an electronic reference tool to enable consumers to better find those advertisements. In essence, they characterize their approach as a more focused search engine. What they call a vertical search engine.

231 With respect to the photographs at issue, Zoocasa created a lower resolution thumbnail image that served as a link to the original property listing. With respect to the property descriptions, Zoocasa created a copy on its server and then later reproduced a portion of it, calculated to provide a visitor with just enough information to decide whether or not to click through to the original listing.

232 This issue of transformative use is addressed by the United States Court of Appeals, Second Circuit in *American Geophysical Union v. Texaco Inc.*, 60 F.3d 913 (U.S. C.A. 2nd Cir. 1994), at 923:

2. Transformative Use.

The District Court properly emphasized that Texaco's photocopying was not "transformative." After the District Court issued its opinion, the Supreme Court explicitly ruled that the concept of a "transformative use" is central to a proper analysis under the first factor, see *Campbell*, 114 S. Ct. at 1171-73. The Court explained that though a "transformative use is not absolutely necessary for a finding of fair use, ... the more transformative the new work, the less will be the significance of other factors, like commercialism, that may weigh against a finding of fair use." Id. S. Ct. at 1171.

The "transformative use" concept is pertinent to a court's investigation under the first factor because it assesses the value generated by the secondary use and the means by which such value is generated. To the extent that the secondary use involves merely an untransformed duplication, the value generated by the secondary use is little or nothing more than the value that inheres in the original. Rather than making some contribution of new intellectual value and thereby fostering the advancement of the arts and sciences, an untransformed copy is likely to be used simply for the same intrinsic purpose as the original, thereby providing limited justification for a finding of fair use. See *Weissmann v. Freeman*, 868 F.2d 1313, 1324 (2d Cir.) (explaining that a use merely for the same "intrinsic purpose" as original "moves the balance of the calibration on the first factor against" secondary user and "seriously weakens a claimed fair use"), *cert. denied*, 493 U.S. 883, 107 L.Ed. 2d 172, 110 S. Ct. 219 (1989).

In contrast, to the extent that the secondary use "adds something new, with a further purpose or different character," the value generated goes beyond the value that inheres in the original and "the goal of copyright, to promote science and the arts, is generally furthered." *Campbell*, 114 S. Ct. at 1171, see also Pierre N. Leval, *Toward a Fair Use Standard*, 103 Harv. L.Rev. 1105, 1111 (1990) [hereinafter Leval, *Toward a Fair Use Standard*]....

233 As a result, Zoocasa asserts that the character of the dealing supports a finding of fair dealing by Zoocasa.

234 In my opinion, the difficulty that arises from the defendants' emphasis on "transformative use" is that what may be transformative, and as a result fair use in the US, may still be copyright infringement in Canada. For example, The US *Copyright Act of 1976*, 17 U.S.C. s. 107 [US Copyright Act] refers to "fair use of a copyright work, for purposes such as criticism, comment, news reporting, teaching, scholarship or research". The nature of this defence in the US is very broad and is essentially a codification of a judge-made rule. In comparison, Canadian copyright law is rooted in the *Copyright Act* which specifically grants to the creator rights to the reproduction of the entire work or a substantial portion of the work: *Copyright Act*, s. 3. Under the Canadian *Copyright Act*, the exceptions or defences to copyright are more narrowly defined and extensively listed (although the list is not exhaustive) such as the purpose of the dealing is for research, private study, criticism, review or news reporting: see ss. 29, 29.1 and 29.2 of the *Copyright Act*. Canadian courts have not recognized "transformative use" as a characteristic of fair dealing.

Failure to Comply with Robot Exclusion Standard

235 The plaintiffs state that the failure to comply with the Robot Exclusion Standard overshadows any finding that the character of the dealing is fair. They state that the Robot Exclusion Standard is evidence of custom or practice in the search industry and as a result applies to a consideration of the character of the dealing. They state that in fact the defendants' failure to abide by the Robot Exclusion Standard is decisive.

236 The defendants, however, submit that consideration of the Robot Exclusion Standard as a factor in the fair dealing analysis is misconceived and that whether or not a website owner wishes the contents of the site to be found by search engines is not the issue and is irrelevant to the analysis. This despite the fact that Zoocasa itself uses the Robot Exclusion Standard on its Website.

237 The defendants argue that an analysis of the authorities cited by the plaintiffs reveal that none of the cases incorporate the Robot Exclusion Standard issue into the four factors considered in the US concept of fair use. The issue arises in those cases in the context of implied licence or an additional factor of good faith.

238 They note that the issue is not custom or practice respecting indexing, rather the plaintiffs rely on *CCH* where the court stated that the focus of the inquiry at this stage of analysis is "how the works were dealt with". The defendants state that the

plaintiffs, in focusing on the remark that it "may be relevant to consider the custom or practice in a particular trade or industry", ignore the emphasis on the purpose of the inquiry.

239 It is not disputed that the Robot Exclusion Standard is a "kind of *de facto* standard" in the industry that governs relations between websites and automated processes. Nor is it disputed that it permits websites to opt out if they do not want to be indexed. It also permits selective opting out where some search engines are permitted, some are not and indeed where only certain pages are permitted to be indexed.

240 The major search engines such as Google, Bing and Yahoo! make the information required to opt out from their search engines publicly available. The defendant does not participate in this industry standard nor do they provide such information if requested. In fact, they do not have a "branded" Internet robot although the evidence is there is no technical reason why they could not.

Discussion of the Robot Exclusion Standard as a Characteristic of Fair Dealing

241 Mr. Levine, the plaintiffs' expert, explains the Robot Exclusion Standard in his expert report in this way:

- a) the Robot Exclusion Standard is the industry standard governing how search engines and website owners interact;
- b) the Robot Exclusion Standard provides a mechanism by which a website operator can choose to opt out of a specific search engine(s), while still remaining accessible to other search engines; and
- c) the Robot Exclusion Standard requires that a search engine disclose the name of its "robot" so that website operators can use either a robots.txt file or meta tags to opt out of being searched by that search engine.

242 In *eBay Inc. v. Bidde's Edge Inc.*, 100 F.Supp.2d 1058 (U.S. Dist. Ct. N.D. Cal. 2000) the United States District Court defined the Robot Exclusion Standard as follows at 1161:

The eBay site employs "robot exclusion headers".... A robot exclusion header is a message, sent to computers programmed to detect and respond to such headers, that eBay does not permit unauthorized robotic activity. (*Id*) Programmers who wish to comply with the Robot Exclusion Standard design their robots to read a particular file, "robots.txt," and to comply with the control directives it contains....

243 Zoocasa acknowledges that it was aware of the Robot Exclusion Standard and that it is widely followed in the marketplace and among search engines. It was also aware that the Robot Exclusion Standard allows a website to opt out of being indexed by all search engines or just specific search engines by inserting the appropriate line of text in the robots.txt file. As noted earlier, Zoocasa itself implements the Robot Exclusion Standard and enjoys the benefits of using the standard.

244 Century 21's Website has a robot.txt file and uses it to indicate to specific search engines that Century 21 does not want them to index the Century 21 Website. However, Century 21, through its website operator, has not been able to use its robot.txt file to block Zoocasa because it does not know the name of Zoocasa's robot or spider. That information is required before a site can be blocked. Zoocasa has refused to provide the name of its robot. On this application Zoocasa indicated for the first time that it does not currently have a "branded" Internet robot. Zoocasa has not explained why it does not given how widespread the standard is in the industry.

245 The Robot Exclusion Standard is an accepted industry standard that permits search engines to function by allowing them to copy content from websites without obtaining the prior consent of potentially many millions of websites, and it also allows individual website operators to opt out of being indexed if they wish.

246 The plaintiffs assert that American courts have recognized the Robot Exclusion Standard as striking the appropriate balance in determining what use is "fair" for the purposes of the fair dealing exception (or the "fair use" exception, as it is known in the United States). In particular, they rely on *Field v. Google Inc.*, 412 F.Supp.2d 1106 (U.S. D. Nev. 2006), and *Parker v. Yahoo!* 2008 U.S. Dist. LEXIS 74512, [88 U.S.P.Q.2d 1779 (U.S. Dist. Ct. E.D. Penn. 2008)].

247 In *Field*, the plaintiff claimed for copyright infringement against Google alleging that Google's caching of the plaintiff's web pages breached copyright. The plaintiff knew that he could use a meta tag to instruct Google not to provide a cached link. The plaintiff also created his own robots.txt file and set it to permit all robots to access his website and to index all of the pages on his website. Google removed the cached links as soon as it was served with the lawsuit. Based on these facts and the expert evidence of John Levine, who is also the plaintiffs' expert in the case at bar, Jones J. found that the plaintiff's conduct could be reasonably interpreted as a grant of a licence to Google to index and cache his website.

248 Jones J. commented about the use of industry standard protocols between website owners and search engines as follows:

17. Given the breadth of the Internet, it is not possible for Google (or other search engines) to personally contact every Web site owner to determine whether the owner wants the pages in its site listed in search results or accessible through "Cached" links....

18. The Internet industry has developed a set of widely recognized and well-publicized industry standard protocols by which Web site owners can automatically communicate their preferences to search engines such as Google.... Google provides instructions for Web site owners to communicate their preferences to Google at <http://www.google.com/remove.html>. ...

19. A principal way for Web site owners to communicate with Google's robot is by placing specific instructions in "meta-tags" within the computer code (called HTML) that comprises a given page. When the Googlebot visits a page, it reads through this code. If it encounters meta-tags, it follows the instructions provided. Thus, for example, a site owner can place the following meta-tag within a page to tell Google's robot not to analyze the page or include it in Google's Web index and search results: ...

...

22. Web site owners can also communicate with search engines' robots by placing a "robots.txt" file on their Web site.... For example, if the Web site owner does not want robots to crawl the owner's Web site, the owner can create a robots.txt file with the following text: "User-agent: * Disallow: /" ... The above text tells the robots that they should not crawl the owner's Web site ... If Google's robot encounters a robots.txt file with the above text, then it will not crawl the Web site, and there will be no entry for that Web page in Google's search results and no cached link ... The Internet industry has widely recognized the robots.txt file as a standard for controlling automated access to Web pages since 1994....

249 In *Parker*, the US District Court of Eastern Pennsylvania followed *Field* and found that a website owner, who, despite knowing about the electronic protocols to prevent indexing and caching (including robots.txt), failed to object to the infringing conduct was granting a licence for the infringing use.

250 In *Parker*, Yahoo! continued to display works even after the commencement of the lawsuit. The court held that initiation of a lawsuit itself may constitute revocation of an implied licence if there was no consideration for the licence. In *obiter*, the court also said that continuing to display works after the commencement of the lawsuit may constitute direct copyright infringement.

251 In the case at bar, Zoocasa has failed to abide by the Robot Exclusion Standard, despite acknowledging it as an industry standard and using it itself. As a result, Zoocasa, in choosing not to embrace the industry standard, has made itself vulnerable to claims of copyright infringement. Zoocasa explains that it was of the view that any site that did not want to be accessed could simply block the Zoocasa IP address. They understood that all websites log visitors IP addresses and it is a technically easy task to block certain addresses. Unbeknownst to them the operator of the plaintiff Century 21's Website did not log such addresses. In addition, as was stated in *eBay*, blocking IP addresses is an inefficient and ineffective means of controlling access from unwanted robotic searches. Zoocasa implicitly acknowledged on discovery that it does not attempt to avoid or evade IP blocking.

252 The issue of fair dealing only arises where there is no consent to the activity complained of. The fact that consent has not been given, or has been refused, whether orally or in writing or in a robots.txt file, is only the starting point for a fair dealing analysis. It is not the end point for an analysis of fair dealing. The test is the character of dealing not the dealing without consent.

253 In my opinion the Robot Exclusion Standard addresses how the copyrighted material was acquired, not how it was used. How the works in question come into the possession of a party is quite irrelevant to a consideration of fair dealing which is concerned with the use of the works, not their manner of acquisition. The manner of acquisition may have relevance to other claims such as bad faith in damage claims but in my view does not assist in a fair dealing analysis.

Alternatives to Dealing

254 The determination of fairness includes consideration of "non-copyrighted equivalent of the work that could have been used instead of the copy-righted work ... [and] ... whether the dealing was reasonably necessary to achieve the ultimate purpose": *CCH*, at para. 57.

255 The plaintiffs' analysis regarding this issue is that the dealing was not reasonably necessary to achieve the ultimate purpose because if the industry can function with sites being entitled to opt out of being indexed, then there are alternative sources of information. In this case, the fact that Zoocasa did at one time and now once again does not index those sites that do not want to be indexed is alleged to be evidence that there are alternative non-copyrighted equivalents to the Century 21 Works.

256 The defendants submit that this factor involves a determination of whether or not there was an alternative to the dealing with the infringed work. That is, was there a non-copyrighted equivalent of the work in question available? They submit that in this case, there was no non-copyrighted alternative if they were to accurately index actual listings.

257 They further state that the plaintiffs' analysis is flawed as the issue, in their view, is not whether to index sites that do or do not want to be indexed, but rather, the issue is whether there was an alternative non-copyrighted source of the work in question. Fair dealing is premised on a lack of consent. However, the lack of consent is not relevant to the analysis itself.

258 According to the evidence of Mr. Lee, Zoocasa, in September 2008, operated on the basis that target websites could opt out of being indexed. However, shortly thereafter they abandoned that policy and in the case of the plaintiffs continued to index their site and information despite knowing they did not wish to be indexed. They have now returned to the earlier policy of allowing websites to opt out of being indexed. Mr. Lee stated "now that the business focus of Zoocasa has been refined, it is apparent that it is not part of Zoocasa's business model to index sites that do not wish to be indexed". The fact that Zoocasa was once and is now able to function adequately without indexing websites that do not wish to be indexed demonstrates that there are alternatives to dealing with infringed works. The practice of all major search engines allowing websites to opt out of being indexed also supports a finding that there are viable alternatives to Zoocasa's previous practice of copying content despite the website operator's objections.

259 The issue, in my view, is whether alternative information is available. It is apparent that if given the choice, Zoocasa would prefer to have access to the Century 21 Website. Their business plan is premised on linking to as many real estate listings as possible.

260 Alternatives to the dealing was defined by the Supreme Court of Canada in *CCH* at para. 57, as "non-copyrighted equivalent of the work that could have been used instead of the copy-righted work ... [and] ... that it will also be useful for courts to attempt to determine whether the dealing was reasonably necessary to achieve the ultimate purpose."

261 It appears therefore that the test is whether there is a non-copyright equivalent of the work. However, the test is premised on the determination that an equivalent was necessary to accomplish what was intended.

262 In this instance, the evidence respecting non-copyrighted equivalents of the Works is that the public is free to access the information sought through individual real estate agents of Century 21. In addition, it appears that the manner of obtaining the copyright work, although preferred by Zoocasa, was not reasonably necessary to achieve its ultimate purpose given they

can source the material elsewhere. I find that Zoocasa had alternatives to the dealing that they chose not to pursue in order to minimize time and expense. As a result their dealings with respect to this factor were not fair.

Amount of the Dealing

263 The court in *CCH*, at para. 56, articulated the principles used to guide courts when determining whether the amount of the dealing was fair. In this regard the court said:

56 Both the amount of the dealing and importance of the work allegedly infringed should be considered in assessing fairness. If the amount taken from a work is trivial, the fair dealing analysis need not be undertaken at all because the court will have concluded that there was no copyright infringement. As the passage from *Hubbard* indicates, the quantity of the work taken will not be determinative of fairness, but it can help in the determination. It may be possible to deal fairly with a whole work. As Vaver points out, there might be no other way to criticize or review certain types of works such as photographs: see Vaver, *supra*, at p. 191. The amount taken may also be more or less fair depending on the purpose. For example, for the purpose of research or private study, it may be essential to copy an entire academic article or an entire judicial decision. However, if a work of literature is copied for the purpose of criticism, it will not likely be fair to include a full copy of the work in the critique.

264 In *Hubbard*, *supra* at 1027, the English Court of Appeal considered the scope of the defence of fair dealing in relation to criticism or review of literary works. Lord Denning made the following remarks:

...

It is impossible to define what is 'fair dealing'. It must be a question of degree. You must consider first the number and extent of the quotations and extracts. Are they altogether too many and too long to be fair? Then you must consider the use made of them. If they are used as a basis for comment, criticism or review, that may be fair dealing. If they are used to convey the same information as the author, for a rival purpose, that may be unfair. Next, you must consider the proportions. To take long extracts and attach short comments may be unfair. But short extracts and long comments may be fair. Other considerations may come to mind also. But, after all is said and done, it must be a matter of impression....

...

265 Substantial taking is not always measured by the quantity of matter reproduced from a copyrighted work, though that may be a significant factor: *Horn Abbot Ltd. v. W.B. Coulter Sales Ltd.* (1984), 77 C.P.R. (2d) 145 (Fed. T.D.) (The "Trivial Pursuit" case). Courts will also look to the quality of matter reproduced. In *U & R Tax Services Ltd. v. H & R Block Canada Inc.* (1995), 97 F.T.R. 259 (Fed. T.D.), at para. 35, the court held that assessing whether or not a taking is substantial may depend upon a number of factors such as:

...

- (a) the quality and quantity of the material taken;
- (b) the extent to which the defendant's use adversely affects the plaintiff's activities and diminishes the value of the plaintiff's copyright;
- (c) whether the material taken is the proper subject-matter of a copyright;
- (d) whether the defendant intentionally appropriated the plaintiff's work to save time and effort; and
- (e) whether the material taken is used in the same or a similar fashion as the plaintiff's.

266 Zoocasa, throughout all times in issue, copied the whole of Century 21's property descriptions onto its servers. Until approximately November 20, 2008, they also displayed those full property descriptions on their Website. After November 20,

2008, they displayed truncated descriptions on their Website. They also copied and displayed the whole photographs that are the subject of this claim. The plaintiffs submit this amount of dealing militates against a finding of fairness.

267 Zoocasa submits that it only takes a portion of the data from the property listings it indexes. They emphasize that the property description must be looked at as part of a whole. They assert that the amount taken may be more or less fair depending on its purposes. As a result, the quantity of the work dealt with will not be determinative of the fairness. They state that given the sole purpose of indexing the property listings in question was to better publicize them and further their purpose of advertising property for sale, that even if the court considers that a substantial portion of the Works or the property listing has been dealt with, the dealing is nonetheless fair.

268 The copying of basic information such as the property address and the legal description is in my view not copyright infringement. However the copying of the property description created for the purpose of encouraging property sales goes beyond such basic information. The written description of the property contains the key information concerning the property. It is a description of the property in prose form while the remainder of the site consists of basic information such as lot size, property taxes etc. In addition, the repeated daily access and indexing of such information militates against a defence of fair dealing. This is not a situation of a one-time copy being taken. It is conduct consisting of repeated actions by the defendants. In my view the amount of dealing exceeds what is fair.

Nature of the Work

269 In regard to the nature of the work, the court in *CCH* at para. 58, stated:

58 The nature of the work in question should also be considered by courts assessing whether a dealing is fair. Although certainly not determinative, if a work has not been published, the dealing may be more fair in that its reproduction with acknowledgement could lead to a wider public dissemination of the work — one of the goals of copyright law. If, however, the work in question was confidential, this may tip the scales towards finding that the dealing was unfair. See *Beloff v. Pressdram Ltd.*, [1973] 1 All E.R. 241 (Ch. D.), at p. 264.

270 The plaintiffs submit that this relates to unpublished confidential work, neither of which factors are present in the case at bar and as a result this factor is not relevant.

271 The defendants however state that the nature of the Works, in this case a property description and a property listing, is significant on the basis that the Works exist solely in order to publicize property for sale. They argue that the plaintiffs' position rests on a restrictive interpretation of the statement in *CCH* that dissemination of an unpublished work might be more fair, while the dissemination of a confidential work might be less fair: *CCH* at para 58.

272 However, *CCH* reveals that the Supreme Court of Canada appears to favour "wider public dissemination of the work" where the work in question is unpublished but not confidential. In the case at bar the work is published on the Century 21 Website for advertising purposes. As a result this favours fair dealing.

Effect of the Dealing on the Work

273 The court in *CCH* described this factor as follows:

59 ... If the reproduced work is likely to compete with the market of the original work, this may suggest that the dealing is not fair. Although the effect of the dealing on the market of the copyright owner is an important factor, it is neither the only factor nor the most important factor that a court must consider in deciding if the dealing is fair....

274 Zoocasa submits that the copying is fair because its Website is intended to drive traffic to the Century 21 Website. The evidence indicates that less than 1% of the Century 21 Website traffic comes from Zoocasa's site. This however is not the real issue. Zoocasa competes with the Century 21 Website for Internet users who are searching for properties for sale. Zoocasa's

own marketing materials state that it "helps reduce the time and effort" required to search for properties online by allowing the user to avoid having to use individual realty websites such as the Century 21 Website.

275 Although the primary purpose of Century 21's Website is to facilitate real estate sales and Zoocasa's primary purpose is to gain profit from advertising such listings, the Zoocasa Website clearly competes with the Century 21 Website in the market for Internet users seeking to search for properties for sale. Both Century 21 and Zoocasa use the copied material in the same way. That is, to facilitate searches by users for real properties.

276 As a result, this factor favours a finding that the dealing is not fair.

Conclusion on Fair Dealing

277 The Supreme Court of Canada in *CCH* discussed how to assess the fair dealing factors as follows at para 60:

60 To conclude, the purpose of the dealing, the character of the dealing, the amount of the dealing, the nature of the work, available alternatives to the dealing and the effect of the dealing on the work are all factors that could help determine whether or not a dealing is fair. These factors may be more or less relevant to assessing the fairness of a dealing depending on the factual context of the allegedly infringing dealing. In some contexts, there may be factors other than those listed here that may help a court decide whether the dealing was fair.

278 The preparation of the property descriptions and the photographs, as I have noted, required some level of skill. The fact that they had value is indicated by the fact that the Zoocasa availed itself of them. In *University of London Press v. University Tutorial Press Ltd.*, [1916] 2 Ch. 601 (Eng. Ch. Div.), at 610 Peterson J. noted that "there remains the rough practical test that what is worth copying is prima facie worth protecting".

279 Based on my conclusions above regarding the elements of the test for fair dealing, and given it is a matter of impression, in my view the actions of Zoocasa during the time that they copied and displayed the whole of the property descriptions and a photograph were, in my opinion, not fair.

280 In this case, the Robot Exclusion Standard is not an additional element because it addresses only the manner in which access was gained not the issues relevant to fair dealing.

No Relief for the Defendants under Section 39 of the Copyright Act

281 At para. 27 of their amended statement of defence, the defendants plead reliance on s. 39 of the *Copyright Act*. Section 39(1) provides as follows:

39. (1) Subject to subsection (2), in any proceedings for infringement of copyright, the plaintiff is not entitled to any remedy other than an injunction in respect of the infringement if the defendant proves that, at the date of the infringement, the defendant was not aware and had no reasonable ground for suspecting that copyright subsisted in the work or other subject-matter in question.

282 The defendants are unable to shelter under this provision for two reasons. First, the defendants were put on notice by September 2, 2008, that Zoocasa's indexing of the Century 21 Website was contrary to the *Copyright Act*. Secondly Mr. Lee on behalf of Zoocasa admitted on discovery that Zoocasa understood there is copyright protection in the prose that people write and the photographs that people take.

Trespass to Chattels

283 The plaintiffs submit that by continuing to access the servers used to host the Century 21 Website after Century 21 demanded that Zoocasa cease doing so, Zoocasa committed the tort of trespass to chattels.

284 Zoocasa argues that such an action cannot be maintained for two reasons. First, the tort does not apply in Canada to the act of accessing computer systems. Second, the plaintiff has no possessory interest in the servers that are used to host their Website.

Discussion

285 Trespass to goods is defined as in Halsbury's Laws of Canada, *Torts*, 1st ed. (LexisNexis: Markham, Ont. 2007) at 150 as:

Trespass to goods. "Chattel" or "goods" refers to tangible personal property, as opposed to real property or intellectual property. Any direct touching of another person's chattel constitutes a trespass to goods, unless such touching is justified by law....The plaintiff does not have to establish ownership of the goods, merely that he or she was in possession of the goods at the material time....

286 This raises the issue of whether Century 21 is in possession of the servers from which its Website is operated to a degree sufficient to support the tort of trespass to chattels. In *1162994 Ontario Inc. v. Bakker*, [2004] O.J. No. 2565 (Ont. C.A.), at para. 20, the court stated:

20 Possession is a difficult concept to define. Both in common and legal parlance, it connotes some form of control over the thing said to be possessed: e.g. D. Dukelow, B. Nuse, *The Dictionary of Canadian Law* 2nd ed., (1995) Carswell at p. 916; *The Shorter Oxford English Dictionary*, Vol. II (1973) p. 1635. Clearly, possession in s. 86(1)(b) is not limited to immediate physical control. For example, a tenant who locks up a rental unit and leaves on an extended vacation, continues to exercise sufficient control over that rental unit so as to qualify as a "tenant in possession" for the purposes of s. 86(1)(b). In my view, possession of a rental unit refers to some form of control over that unit as demonstrated by factors such as access to, use of, or occupation of the unit.

287 Black's Law Dictionary, 6th ed. (West Publishing Co.: St. Paul, Minn., 1990) at 1163 defines "possession" as follows:

The law, in general, recognizes two kinds of possession: actual possession and constructive possession. A person who knowingly has direct physical control over a thing, at a given time, is then in actual possession of it. A person who, although not in actual possession, knowingly has both the power and the intention at a given time to exercise dominion or control over a thing, either directly or through another person or persons, is then in constructive possession of it. The law recognizes also that possession may be sole or joint....

288 *Marsh v. Kulchar* (1951), [1952] 1 S.C.R. 330, [1952] 1 D.L.R. 593 (S.C.C.), at 334-335, also considered the meaning of possession:

...

The word "possession" in English law is, as has often been pointed out, a most ambiguous word. As most often used, however, it imports actual physical possession. ... When a motor car is stolen from the owner, the thief takes actual physical possession, and thus takes it out of the possession of the owner, although the right to possession remains with the latter. That this is the idea in contemplation of the statute is shown by the use of the phrase, "or otherwise...taken out of his possession." ...

...

289 Any claim by the plaintiff to possession of the computer system that supports its Website is based on its agreement with WTL. The plaintiff entered into an agreement with WTL dated July 27, 2006 (the "WTL Agreement"). I assume for the moment that any claim the plaintiff has to trespass with respect to its Website involves the servers on which the Website content, listings, property descriptions and photographs are located. As a result, the provisions of the agreement must be considered.

290 The WTL Agreement states that WTL provides "Internet-based software services to the real estate industry". The definitions applicable to the trespass issue are as follows:

a. "Hosting Services" means electronic access to, hosting of and management of the C21 CA Website, including but not limited to WTL Supplied Software, C21 CA Content and Third Party Provider content on servers controlled by WTL or its Third Party Providers.

n. "WTL Technology" means WTL's (or its licensors' or suppliers') proprietary technology, including but not limited to WTL's industry-specific products, the Services, WTL Supplied Software and other software, tools, database designs, algorithms, user interface designs, architecture, class libraries, objects and documentation, network design, know-how, training documentation, support documentation, source code, content and other information or materials supplied or provided by WTL as part of the Services.

291 The relevant provisions of the WTL Agreement are:

3. Hosting Services:

a. Hosting. WTL agrees to provide, and C21 CA agrees to take and pay for, Hosting Services for the WTL Technology and the C21 CA Content during the term in accordance with this Agreement.

f. Infrastructure. WTL agrees to provide the Hosting Services via commercially accepted infrastructure, including servers, security and bandwidth scalable in excess of the needs of the Website.

6. WTL Technology:

a. WTL hereby grants to C21 CA a nonexclusive license during the term of this Agreement to use the WTL Technology solely for the purposes of using the Website and the Services. Subject to such license, WTL (and/or its licensors and/or suppliers) will retain all rights in all WTL Technology....

292 Through the WTL Agreement, WTL granted Century 21 a licence to use WTL Technology for its Website and the corresponding services. They do not have any grant of licence respecting the infrastructure which includes the servers. That is simply the technology used by WTL to provide hosting services.

293 In this instance it is alleged that the trespass occurred on the WTL servers. Century 21 relies on *eBay* for the assertion that American courts have held that accessing a website without authorization constitutes a trespass to chattels. In that case *eBay* sought a preliminary injunction against Bidder's Edge on the ground of trespass to prevent Bidder's Edge from crawling its website. Bidder's Edge operated an aggregation site that scraped content from several auction sites and posted that content to its own site. In some respects this is similar to the activities of Zoocasa which accumulates real estate listings from multiple sites.

294 The court, in granting *eBay's* application for an interlocutory injunction, found that the right of Bidder's Edge to use *eBay's* personal property, even if the use was negligible, was not a right recognized by law and held as follows at 1070:

...

... eBay's servers are private property, conditional access to which eBay grants the public. eBay does not generally permit the type of automated access made by BE. In fact, eBay explicitly notifies automated visitors that their access is not permitted....eBay repeatedly and explicitly notified BE that its use of eBay's computer system was unauthorized. The entire reason BE directed its queries through proxy servers was to evade eBay's attempts to stop this unauthorized access....

...

295 The tort has traditionally been applied to physical interference with a chattel. The issue then becomes whether or not electronic access is "physical" or whether it needs to be "physical" for the tort claim to succeed. In *Thrifty-Tel Inc. v. Bezenek*, 46 Cal. App. 4th 1559 (U.S. Cal. Ct. App. 4 Dist. 1996), the court held that electronic access is sufficient and stated at 1566-1567:

Trespass to chattel, although seldom employed as a tort theory in California (indeed, there is nary a mention of the tort in Witkin's Summary of California Law), lies where an intentional interference with the possession of personal property has proximately caused injury. (See, e.g., *Itano v. Colonial Yacht Anchorage* (1968) 267 Cal. App. 2d 84, 90 [72 Cal. Rptr. 823].) Prosser notes trespass to chattel has evolved considerably from its original common law application — concerning the asportation of another's tangible property — to include even the unauthorized *use* of personal property: "Its chief importance now," according to Prosser, "is that there may be recovery ... for interferences with the possession of chattels which are not sufficiently important to be classed as conversion, and so to compel the defendant to pay the full value of the thing with which he has interfered. Trespass to chattels survives today, in other words, largely as a little brother of conversion." (Prosser & Keeton on Torts, *supra*, § 14, pp. 85-86, fn. omitted; see also *Zaslow v. Kroenert* (1946) 29 Cal. 2d 541, 551 [176 P.2d 1] ["Where the conduct complained of does not amount to a substantial interference with possession or the right thereto, but consists of intermeddling with or use of ... the personal property, the owner has a cause of action for trespass" to chattel, but not for conversion].) [Citations omitted].

296 It is not at all clear that Canadian law supports the proposition that electronic access to a computer system is a physical act involving some degree of force. As noted by G.H.L. Fridman, *The Law of Torts in Canada*, 2d ed. (Carswell: Toronto, 2002) at 125: "Trespass involves a physical act *vis-a-vis* the object in question". However, given my findings below respecting Century 21's claim to a possessory interest in WTL's website servers it is not necessary to resolve this issue.

297 Even assuming that in Canada, as has been found in the US, that electronic signals are sufficiently tangible to trespass there must still be a physical object that is trespassed upon: *Thrifty-Tel Inc.*, *supra*; *Compuserve Inc. v. Cyber Promotions Inc.*, 962 F. Supp. 1015 (U.S. S.D. Ohio 1997); *eBay*, *supra*; and *Intel Corp. v. Hamidi* [(April 28, 1999), Doc. 98AS05067 (U.S. Cal. Sup. Ct.)], 1999 WL 450944.

298 In Canada, the physical trespass of a chattel is a requirement necessary to plead the tort of trespass: Fridman, *The Law of Torts in Canada*, above at para. 297 at 121-123.

299 The chattels in question are the servers of WTL or its third party suppliers. Century 21 under its agreement with WTL has no possessory interest in those servers. As a result, an essential element of the tort of trespass to chattels is not present. Any potential claim for trespass to chattels would be that of WTL. They are not a party to this action. Century 21's claim respecting trespass to chattels is dismissed.

Liability of Rogers

300 The plaintiff advances its claim against Rogers on several grounds. They claim that Rogers is liable for authorizing the breach of copyright pursuant to s. 27(1) of the *Copyright Act*. They also claim that Rogers is liable for inducing Zoocasa's breach of contract arising under the Terms of Use and finally that Rogers is guilty of the tort of inducing breach of contract.

301 The plaintiffs base Roger's liability on allegations that Rogers has gone beyond the role of shareholder and investor and has directly supported and promoted the Zoocasa Website. The plaintiffs make this claim on the basis of Rogers' initial role in developing Zoocasa and its ongoing support for the company.

302 In particular, the plaintiffs cite the involvement of Rogers' employees in developing the Zoocasa idea, Website and search engine before Zoocasa was incorporated on March 28, 2008, and in advancing the Zoocasa project by leveraging relationships that Zoocasa had with the industry.

303 The plaintiffs further cite Rogers' ongoing support for the project, noting that Rogers is the sole provider of funding and support for the development and maintenance of the Zoocasa Website. The plaintiffs note several instances where Rogers' employees, acting in their capacity as such, actively promoted the Zoocasa Website to Century 21. The plaintiffs also cite the fact that Zoocasa's three directors are all officers of Rogers.

Defendants' Position

304 The defendants deny that Rogers can be liable as asserted by the plaintiffs and say that the Zoocasa Website is operated by a separate legal entity, all employees are now those of the numbered company and any decisions about indexing and listing are made by Zoocasa, not Rogers. The defendants say that Rogers is a shareholder of Zoocasa and is not liable for the actions of Zoocasa. They deny that Rogers authorized the conduct of Zoocasa.

Rogers Involvement in Zoocasa

305 Rogers has actively participated in Zoocasa's business. Michael Lee and Barry Choi developed the idea for the Zoocasa project in the spring of 2007 while they were both employees of Rogers and before Zoocasa was incorporated.

306 The work to build the search engine for the Zoocasa Website began in late summer of 2007, before Zoocasa was incorporated. Rogers, not Zoocasa, registered the domain name for the Zoocasa Website. Rogers also lent employees to Zoocasa for the development of the Zoocasa Website and leveraged relationships that Rogers had with the industry, both of which helped to advance the Zoocasa project. The initial programming for the Zoocasa Website was completed by Rogers' employees.

307 In addition, Zoocasa has three directors, all of whom are officers of Rogers. Rogers is also the sole provider of funding and support for the development and maintenance of the Zoocasa Website having contributed \$2.1 million in 2008 and \$2.2 million in 2009.

308 Rogers also supports the Zoocasa Website by providing services in kind (i.e., using other business units to drive traffic to the Zoocasa Website). Rogers has also provided legal services to support the Zoocasa Website as Rogers and its external counsel drafted the terms of use for the Zoocasa Website.

309 Even after Zoocasa was incorporated on March 28, 2008, employees of Rogers continued to be actively involved in promoting the Zoocasa Website. On July 4, 2008, Darrell Cox of Rogers sent an email to Barbara Fromm of Century 21 to introduce her to the Zoocasa Website. He identified himself in the email as Director of Business Development, Rogers Communications Inc., and stated as follows:

As per my voice mail, I'd love to get the time with you to discuss a real estate vertical search website we have developed.... From a Rogers perspective we want to drive brand awareness with consumers who will soon be in the market for cable, home phone and/or broadband services.

310 When Mr. Phillipson and Mr. Cox met with Century 21 in the summer of 2008, they presented themselves with their Rogers business cards as being, respectively, Manager, Business Development, Rogers Communications Inc., and Director, Business Development, Rogers Communications Inc.

311 Darren Phillipson, who was actively involved in developing and promoting the Zoocasa Website, was never officially an employee of Zoocasa. He was at all times an employee of Rogers. Mr. Cox also worked on the Zoocasa project while an employee of Rogers to "help support the venture", as did Mr. Lewin for a period of time.

312 On October 16, 2008, C.B. Ross, a representative of Rogers Wireless who had no position with Zoocasa, sent two emails to Ms. Fromm of Century 21, in which he underscored Rogers' direct involvement in the development and maintenance of the Zoocasa Website.

313 Direct conduct by Rogers continued thereafter directly in the operation of the subsidiary. On January 13, 2009, Mr. Cox, writing in his capacity as Director of Business Development, Rogers Communications Inc., from Roger's head office in Toronto, sent an email to Sherry Chris, a representative of the owner of the Century 21 brand in the United States, in which he attempted to arrange a meeting between representatives of Rogers and Century 21 USA to discuss the Zoocasa Website.

Discussion

Roger's Alleged Authorization of Copyright Infringement

314 Is Rogers liable for copyright infringement by authorizing Zoocasa's infringement? The plaintiffs' submit that s. 27(1) of the *Copyright Act* prohibits anyone from doing that which only the owner of the copyright owner has the right to do. Pursuant to s. 3(1), only the copyright owner has the right to "authorize" the reproduction of a work.

315 Liability for contravening s. 3(1) through authorizing violations of copyright is found in s. 27 of the *Copyright Act*:

27. (1) It is an infringement of copyright for any person to do, without the consent of the owner of the copyright, anything that by this Act only the owner of the copyright has the right to do.

316 The meaning of "authorize" in this context was reviewed by the Supreme Court of Canada in *CCH* at para. 38 where the court stated as follows:

38 "Authorize" means to "sanction, approve and countenance": *Muzak Corp. v. Composers, Authors and Publishers Association of Canada, Ltd.*, [1953] 2 S.C.R. 182, at p. 193; *De Tervagne v. Beloeil (Town)*, [1993] 3 F.C. 227 (T.D.). Countenance in the context of authorizing copyright infringement must be understood in its strongest dictionary meaning, namely, "[g]ive approval to; sanction, permit; favour, encourage": see *The New Shorter Oxford English Dictionary* (1993), vol. 1, at p. 526. Authorization is a question of fact that depends on the circumstances of each particular case and can be inferred from acts that are less than direct and positive, including a sufficient degree of indifference: *CBS Inc. v. Ames Records & Tapes Ltd.*, [1981] 2 All E.R. 812 (Ch. D.), at pp. 823-24. However, a person does not authorize infringement by authorizing the mere use of equipment that could be used to infringe copyright. Courts should presume that a person who authorizes an activity does so only so far as it is in accordance with the law: *Muzak, supra*. This presumption may be rebutted if it is shown that a certain relationship or degree of control existed between the alleged authorizer and the persons who committed the copyright infringement: *Muzak, supra*; *De Tervagne, supra*; see also J. S. McKeown, *Fox Canadian Law of Copyright and Industrial Designs* (4th ed. (loose-leaf)), at p. 21-104, and P. D. Hitchcock, "Home Copying and Authorization" (1983), 67 C.P.R. (2d) 17, at pp. 29-33.

[Emphasis added]

317 It is not disputed that Rogers, through its employees and representatives, directly supported and promoted the Zoocasa Website. However, the plaintiff submits that in addition Rogers has directly sanctioned, approved, countenanced, favoured, and encouraged the Zoocasa Website. They submit that liability for authorizing copyright infringement can arise from acts that are less than direct and positive, including a sufficient degree of indifference.

318 Zoocasa relied on Rogers for development and support of its Website, search engine and "spider" or "robot". However, the court in *CCH* made it clear that "a person does not authorize infringement by authorizing the mere use of equipment". Therefore, the question then becomes whether Rogers authorized Zoocasa's alleged copyright infringement?

319 The relevant principle is stated in *de Tervagne v. Beloeil (Town)*, [1993] 3 F.C. 227 (Fed. T.D.) at para. 49, where the Federal Court cited P. D. Hitchcock's article "Home Copying and Authorization" (1983), 67 C.P.R. (2d) 1983, at 17-49:

49 The position of Kellock J. may be summarized as follows: "[i]n order to 'authorize' a person must sanction, approve or countenance more than mere use of **equipment that might possibly be used in an infringing performance but, on the other hand, a person need not go so far as to grant or purport to grant the right to perform**"

320 In *CCH*, the Supreme Court of Canada rejected the claim that the Law Society of Upper Canada authorized copyright infringement by providing self-service photocopiers in the Great Library at Osgoode Hall in Toronto, stating as follows:

43 First, there was no evidence that the photocopiers had been used in a manner that was not consistent with copyright law.... Although the Court of Appeal assumed that the photocopiers were being used to infringe copyright, I think it is equally plausible that the patrons using the machines were doing so in a lawful manner.

321 Similarly, and in the context of the Internet, the Supreme Court of Canada in *SOCAN* at paras. 122-123, expanded on this issue:

122 Of course there is a good deal of material on the Internet that is not subject to copyright, just as there was a good deal of law-related material in the Great Library at Osgoode Hall that was not copyrighted in the recent *CCH* appeal. In that case, as here, the copyright owners asserted that making available a photocopier and photocopying service by the Law Society of Upper Canada implicitly "authorized" copyright infringement....

123 The operation of the Internet is obviously a good deal more complicated than the operation of a photocopier, but it is true here, as it was in the *CCH* case, that when massive amounts of non-copyrighted material are accessible to the end user, it is not possible to impute to the Internet Service Provider, based solely on the provision of Internet facilities, an authority to download copyrighted material as opposed to non-copyrighted material.

322 In *SOCAN*, the court approved the decision of the Copyright Board that an institution's knowledge that the means provided may be used to infringe copyright does not, in and of itself, constitute authorization. The Copyright Board had stated as follows:

124 On this point the Board concluded as follows (at p. 458):

Even knowledge by an ISP that its facilities may be employed for infringing purposes does not make the ISP liable for authorizing the infringement if it does not purport to grant to the person committing the infringement a license or permission to infringe. An intermediary would have to sanction, approve or countenance more than the mere use of equipment that may be used for infringement. Moreover, an ISP is entitled to presume that its facilities will be used in accordance with law.

323 The Court in *SOCAN* continued:

124 ... This conclusion is generally consistent with the decision of this Court in the *CCH* case", although I will point out that copyright liability may well attach if the activities of the Internet Service Provider cease to be content neutral, e.g. if it has notice that a content provider has posted infringing material on its system and fails to take remedial action.

324 However, the court did not have to consider the possibility that knowledge of a copyright infringement coupled with failure to take remedial action might constitute implicit authorization:

127 The knowledge that someone *might* be using neutral technology to violate copyright (as with the photocopier in the *CCH* case) is not necessarily sufficient to constitute authorization, which requires a demonstration that the defendant did "(g)ive approval to; sanction, permit; favour, encourage" (*CCH*, at para. 38) the infringing conduct. I agree that notice of infringing content, and a failure to respond by "taking it down" may in some circumstances lead to a finding of "authorization". However, that is not the issue before us. Much would depend on the specific circumstances. An overly quick inference of "authorization" would put the Internet Service Provider in the difficult position of judging whether the copyright objection is well founded, and to choose between contesting a copyright action or potentially breaching its contract with the content provider. A more effective remedy to address this potential issue would be the enactment by Parliament of a statutory "notice and take down" procedure as has been done in the European Community and the United States.

128 In sum, I agree with the Court of Appeal that "authorization" could be inferred in a proper case but all would depend on the facts.

325 Where a party supplies equipment but does not have control over how the equipment is to be used, that party does not "authorize" the copyright infringement. In *Canadian Performing Right Society Ltd. v. Vigneux*, [1943] S.C.R. 348 (S.C.C.), reversed [1945] UKPC 1 [1945] A.C. 108 (*Canada P.C.*), the defendants supplied a phonograph to a restaurant and, in exchange for a monthly rental, provided records. The Privy Council found this did not constitute the defendants "authorizing"

the restaurant owner's public performance of the works in question as they did not give the alleged performance nor have control over the machine. As stated by Lord Russell at 123:

...

... They had no control over the use of the machine; they had no voice as to whether at any particular time it was to be available to the restaurant customers or not. The only part which they played in the matter was, in the ordinary course of their business, to hire out to Raes one of their machines and supply it with records, at a weekly rental of ten dollars.

...

326 In *Muzak Corp. v. Composers, Authors & Publishers Assn. (Canada)* [1953 CarswellQue 18 (S.C.C.)], referred to above, Kellock J. cited with approval the above passage from *Vigneux*. In *Muzak* the court held that merely furnishing electronic transcriptions of musical works, arranged so as to be performed on transcription turntables, did not authorize the use of these works in a manner which violated the owner's copyright. This could not be construed as authorization because, as in *Vigneux*, *Muzak* did not have control of the actual performances.

Did Rogers Authorize More Than "Mere Use of Equipment"?

327 In my view, Rogers, in providing the means by which to establish the Zoocasa idea, Website and search engine, did no more than "authoriz[e] the mere use of equipment which could be used to infringe copyright." As in *SOCAN*, the technology in question is "neutral technology" in the sense that there are plausible legal uses for tools which index, list and link websites. Indeed, the evidence suggests that allowing for automatic indexing is an industry standard provided that the site being indexed can reasonably exercise a right to "opt-out" if this is desired.

328 Furthermore, the situation is akin to that in *Vigneux* and *Muzak* as there is no evidence that Rogers exercised specific control over the manner in which the tool operated. In particular, there is no evidence that Rogers controlled which sites Zoocasa's "robot" or "spider" accessed or the process by which the tool's administrator prevented the collection information from parties who did not want such information collected. The evidence is that the tool that Rogers assisted Zoocasa to develop was able to exclude specific websites upon request.

329 However, if implicit authorization can be established based on knowledge by Rogers of the alleged infringement and the support offered despite this knowledge the presumption that it only authorized Zoocasa to index, list and link websites in accordance with the law, may be rebutted by evidence that "a certain relationship or degree of control existed" between Rogers and Zoocasa.

330 This then leads to the question of whether there was such a relationship or degree of control between Rogers and Zoocasa so as to rebut the presumption that the activity was only authorized in so far as it is in accordance with the law.

Exercise of Control by a "Parent" Company over Its Subsidiary

331 Ordinarily, control exercised by Rogers in its capacity as a shareholder in Zoocasa would not make Rogers liable. Recognition of such control would pierce the corporate veil. As stated by the British Columbia Court of Appeal in *Edgington v. Mulek Estate*, 2008 BCCA 505 (B.C. C.A.), a case involving a breach of contract, control by a shareholder of a corporation is expected and that on its own is not sufficient to disregard the separate legal personality of the corporation:

[20] ... Parties to transactions employ the use of corporate vehicles for a reason, as they are entitled to do. Shareholders, despite being in a position of control, do not, as a rule, incur liability for the breach of their corporation's contractual obligations. It is not a matter of control; the shareholders of a closely held company like Westpark invariably have control of the company.

[21] The separate legal personality of the corporation will not be lightly disregarded. As recognized in *Big Bend Hotel Ltd. v. Security Mutual Casualty Co.* (1980), 19 B.C.L.R. 102 at 108 (B.C.S.C.), respect for the corporate form is strict:

On the whole, Canadian and English courts rigidly adhere to the concept set out in *Salomon*, supra, that a corporation is an independent legal entity not to be identified with its shareholders.

[22] There are certain circumstances in which what the authorities state to be the "corporate veil" will be "pierced" or "lifted", or where the separate legal personality of the corporation will be disregarded. Such circumstances generally arise where the corporate form has been abused - that is, it has been used for fraudulent or illegitimate purposes (see *Big Bend Hotel*).

332 In *Mentmore Manufacturing Co. v. National Merchandise Manufacturing Co.* (1978), 89 D.L.R. (3d) 195 (Fed. C.A.), at 202-203, [1978] 2 A.C.W.S. 486 (Fed. C.A.), the Federal Court of Appeal stated, in the context of patent infringement, that a corporation's shareholders are not considered to have authorized an infringement by that corporation:

...

... There is no reason why the small, one-man or two-man corporation should not have the benefit of the same approach to personal liability merely because there is generally and necessarily a greater degree of direct and personal involvement in management on the part of its shareholders and directors. This view finds support, I believe, in the cases. It has been held that the mere fact that individual defendants were the two sole shareholders and directors of a company was not by itself enough to support an inference that the company was their agent or instrument in the commission of the acts which constituted infringement or that they so authorised such acts as to make themselves personally liable. *British Thompson-Houston Company Ltd. v. Sterling Accessories Ltd.* (1924), 41 R.P.C. 311; *Prichard & Constance (Wholesale) Ltd. v. Amata Ltd.* (1924), 42 R.P.C. 63. It is the necessary implication of this approach, I think, that not only will the particular direction or authorisation required for personal liability not be inferred merely from the fact of close control of a corporation but it will not be inferred from the general direction which those in such control must necessarily impart to its affairs....

...

[Emphasis added]

333 The "personal liability" of the shareholder referred to in *Mentmore* should be identified with liability of shareholders generally — regardless of whether the shareholder is a natural person or another corporation.

334 In my view, I can only consider Rogers' control of Zoocasa as shareholder if, in the present circumstances, the corporate veil can be pierced when dealing with a subsidiary corporation. The law with regard to when the court should look behind a subsidiary corporation and place liability on the parent company is stated in *International Trademarks Inc. v. Clearly Canadian Beverage Corp.* (1999), 47 B.L.R. (2d) 193, 85 A.C.W.S. (3d) 306 (B.C. S.C.), at paras. 10-1:

[10] The test in these circumstances is that set out in *Aluminum Co. of Canada Ltd. v. Toronto*, [1944] 3 D.L.R. 609 (S.C.C.), Rand J. at 614:

The question, then, in each case, apart from formal agency which is not present here, is whether or not the parent company is in fact in such an intimate and immediate domination of the motions of the subordinate company that it can be said that the latter has, in the true sense of the expression, no independent functioning of its own.

[11] This test was discussed with approval in *Harrington v. Dow Corning Corp.*, [1998] B.C.J. No. 831, (2 April 1998), Vancouver C954330 (B.C.S.C.) by Mackenzie J. (as he then was):

The test for an alter ego or agency relationship sufficient to impose liability on a parent company is a stringent one. The subsidiary must be under the complete control of the parent to an extent that it has no independent functions of its own. It exercises no discretion independently of the parent: *Aluminum Company of Canada v. The Corporation of the City of Toronto*, [1944] 3 D.L.R. 609 (S.C.C.); *Gregorio v. Intrans-Corp.* (1994), 18 O.R. (3d) 527 (C.A.); *Hunt v. T & N PLC.*, [1989] B.C.J. No. 2173, November 29, 1989, B.C.C.A., Vancouver Registry CA011399.

(See also: *Simon Fraser University v. British Columbia (Information and Privacy Commissioner)*, 2009 BCSC 1481 (B.C. S.C.), citing the above.)

335 The evidence does not establish that Zoocasa was "under the complete control" of Rogers and had "no independent functioning of its own." As a result, the court is not entitled to consider control exercised by Rogers in its capacity as a shareholder of Zoocasa. The corporate veil is not pierced.

Relationship of Control between Rogers and Zoocasa

336 As stated in *CCH*, the presumption that the activity was only authorized to the extent that it conforms with the law may be rebutted if "a certain relationship or degree of control existed between the alleged authorizer and the persons who committed the copyright infringement" can be shown.

337 In *CCH*, the court determined that the Law Society of Upper Canada lacked sufficient control over the Great Library's patrons to permit a finding that it authorized the infringement. In particular, the court stated that the Law Society and Great Library patrons "are not in master-servant" or "employer-employee relationship."

338 For the proposition that a relationship of control must exist in order to rebut the presumption of lawful use, the court in *CCH* cited, *inter alia*, *Muzak*, *de Tervagne* and P. D. Hitchcock's, "Home Copying and Authorization" (1983), 67 C.P.R. (2d) 17, at 29-33.

339 In *de Tervagne*, the Federal Court once again relied upon P.D. Hitchcock's analysis of *Muzak* for this principle:

53 According to Hitchcock, this is primarily a question of fact which depends on the circumstances of each case. The first factor to be considered is the degree of control that the defendant exercised over the infringer. That control must be such that he or she could prevent the infringement from being committed. The second factor is that a reasonable person would be led to conclude that the defendant sanctions, approves or countenances the infringements, and that the defendant should have known that his or her words, actions or inaction would be seen as such by a reasonable person. It is Hitchcock's opinion that such authorization may be express or implied.

340 In *de Tervagne*, the court analyzed English and Australian jurisprudence and concluded that:

60 ... the degree of control exercised by the defendants over the people who committed the infringement was determined on the basis of the master-servant or employer-employee relationship that existed between the parties....

Older Canadian case-law suggests that a principal-agent relationship can also serve to rebut the relevant presumption: see *Canadian Performing Right Society Ltd. v. Yee*, [1943] 4 D.L.R. 732 (Alta. Dist. Ct.).

341 As a result, the necessary relationship to establish Rogers' liability under this category is one of "master-servant", "employer-employee" or "principal-agent".

342 Although, the plaintiffs plead that Rogers, "through its employees and representatives, directly supported and promoted the Zoocasa Website", the plaintiffs did not plead that any of the above categories of relationship existed between Zoocasa and Rogers. Nor does the evidence establish the necessary relationship. As a result, the plaintiffs have failed to rebut the presumption that Rogers only authorized Zoocasa to use the Zoocasa Website in accordance with the law.

Inducing Breach of Contract

343 The plaintiffs also submit that Rogers is liable for inducing Zoocasa's alleged breach of contract. The test for this tort was recently stated by the Ontario Court of Appeal in *Drouillard v. Cogeco Cable Inc.*, 2007 ONCA 322 (Ont. C.A.) at para. 26, as follows:

...

- 1) [The plaintiff] had a valid and enforceable contract with [a third party];
- 2) [The defendant] was aware of the existence of the contract;
- 3) [The defendant] intended to and did procure the breach of the contract; and
- 4) As a result of the breach, the plaintiff suffered damages.

...

344 A similar test was articulated in *Super-Save Enterprises Ltd. v. 249513 B.C. Ltd.*, 2004 BCCA 183 (B.C. C.A.). However, the main difference was that the court required that the "defendant was or can be assumed to have been aware of the existence of the contract." This requirement is discussed further below.

345 Although not addressed in the plaintiffs' submissions, if the plaintiffs succeed in establishing all of the elements of the tort, the defendants can still show legal justification for their action. I will discuss justification after addressing the elements of the tort.

346 As discussed above, Rogers' liability for the tort of inducing breach of contract can only arise from its corporation-to-corporation relationship with Zoocasa. To take into account Rogers' role as the sole shareholder in Zoocasa would be to pierce the corporate veil. Indeed, the Alberta Court of Appeal has affirmed this position in the specific context of a shareholder alleged to have induced a breach of contract: *Brae Centre Ltd. v. 1044807 Alberta Ltd.*, 2008 ABCA 397 (Alta. C.A.) at para. 1.

Discussion

Elements of the Tort of Inducing Breach of Contract

Existence of a Valid and Enforceable Contract

347 As I noted earlier in my reasons, the Terms of Use are a valid and enforceable contract between Century 21 and Zoocasa. This element of the test is met.

Awareness of the Existence of the Contract

348 The plaintiffs state that Rogers was aware of the existence of this contract as a result of correspondence that Century 21 sent to Rogers consisting of four "cease and desist" letters sent either to Rogers or to their solicitors.

349 The knowledge requirement for the tort of inducing breach of contract includes situations where knowledge of the contract can be assumed. In this regard, the Alberta Court of Appeal in *Royal Bank v. Wilton* (1995), 123 D.L.R. (4th) 266, 28 Alta. L.R. (3d) 1 (Alta. C.A.), at 272, adopted the explanation of the "knowledge" requirement given in N. Klar, *Tort Law* (Carswell, Toronto 1991) at 436:

...

... it follows that the defendant's knowledge of the existence of a contract, and its terms, is an essential element of the cause of action. It has been held that knowledge of the precise terms of a contract is not required, as long as the defendant had "the means of knowledge" yet deliberately disregarded them. A party who induces another to terminate its contract with the plaintiff, without regard to whether this can lawfully be done, runs the risk that the contract will be breached as a result of this inducement.

...

See also: *Posluns v. Toronto Stock Exchange* (1964), 46 D.L.R. (2d) 210 (Ont. H.C.), at 268,.

350 As a result, the plaintiffs are required to prove that the defendants were aware of the contract or had "the means of knowledge" to be aware of the contract. The plaintiffs are not required to establish that the defendants were aware of the contract's precise terms although they would need to know the nature of the contract and that it prohibited indexing without permission.

The Defendant Intended To and Did Procure the Breach of the Contract

351 This element of tort has two requirements. First, that Rogers possessed the necessary intention to procure the breach of contract. Second, that Roger's action in fact resulted in the breach of the contract.

352 With regard to the "intention" requirement, the court in *Drouillard*, at paras. 29-30 stated the following:

[29] To satisfy the third element of the tort, the procurement of the breach must be intended and direct. In Professor Lewis N. Klar's text *Tort Law* (Toronto: Carswell, 2003) at 612, he states:

In order to succeed, a plaintiff must prove that the defendant intended to procure a breach of contract. In this respect, intention is proven by showing that the defendant acted with the desire to cause a breach of contract, or with the substantial certainty that a breach of contract would result from the defendant's conduct.

[Citations omitted]

[30] In John G. Fleming's text *The Law of Torts*, 9th ed. (Sydney: LBC Information Services, 1998) at 761, he notes that to be liable under this tort the defendant must have acted with the "necessary knowledge and intent of procuring a breach of contract,": Fleming continues at 761-62:

Merely that the breach was a natural consequence of his conduct is not sufficient: he must have intended it. Not that he need have actually known the precise terms of it or that his object could be accomplished only through its breach. If - turning a blind eye - he went about it regardless of whether it would involve a breach, he will be treated just as if he had knowingly procured it. Indifference is equated with intent.

353 In order to prove that the defendant intended to procure a breach of contract, the plaintiff must show that the defendant acted with the desire to cause a breach of contract, with substantial certainty that a breach of contract would result from the defendant's conduct or with indifference to whether the contract would be breached: *Thermo King Corp. v. Provincial Bank of Canada* (1981), 130 D.L.R. (3d) 256 (Ont. C.A.); *Dirassar v. National Trust Co.* (1966), 59 D.L.R. (2d) 452 (B.C. C.A.); *Emerald Construction Co. v. Lowthian*, [1966] 1 W.L.R. 691 (Eng. C.A.), at 704.

354 As a result, the plaintiffs must establish that Rogers desired to cause Zoocasa to breach its contract with Century 21 or acted with substantial certainty that a breach of contract would result or, at a minimum, that Rogers was indifferent to whether a breach would result as a consequence of its actions.

355 As stated in *Garry v. Sherritt Gordon Mines Ltd.* (1987), 45 D.L.R. (4th) 22, [1988] 1 W.W.R. 289 (Sask. C.A.), at 335, the requirement that the defendant's actions "in fact resulted in the breach of the contract" is a straightforward question of causation. The standard to be applied is whether the breach is "fairly attributable to any such pressure, persuasion or procurement on the part of the ... defendants": *D.C. Thomson & Co. v. Deakin*, [1952] Ch. 646 (Eng. C.A.), at 686.

356 As a result, if the plaintiffs are able to establish that Rogers intended to procure the breach of contract, they must still establish that Zoocasa's breach of contract is "fairly attributable" to the actions Rogers is alleged to have taken in support of Zoocasa.

357 The plaintiffs submit that Century 21 has established all the elements of the tort because:

- i. Century 21's Terms of Use constitute a binding contract with those who access the Century 21 Website;

- ii. Rogers knew that Zoocasa was accessing the Century 21 Website, and that there were Terms of Use that governed the access to that Website;
- iii. Rogers intended to and did procure Zoocasa's breach of the Terms of Use. Rogers was fully aware of Zoocasa's conduct and of Century 21's objection to that conduct. Specifically, Rogers was aware from the correspondence it received that Century 21 took the position that Zoocasa's conduct amounted to a breach of the Terms of Use. Rogers played an active role in promoting, facilitating and enabling the conduct by Zoocasa that breached the Terms of Use contract;
- iv. Century 21 has suffered damages as a result of Zoocasa's breach of the Terms of Use;
- v. The initial development of Zoocasa was carried out by the Rogers New Ventures unit; and
- vi. Rogers is therefore also liable for the tort of inducing Zoocasa's breach of that contract;

358 The defendant Rogers states that:

- i. The indexing and linking activities are those of Zoocasa, not Rogers;
- ii. Rogers is a shareholder only and as such not liable for the actions of Zoocasa;
- iii. The fact that Rogers set up Zoocasa in its initial stages and that Roger's employees assisted it is irrelevant to the question of whether Rogers authorized the activities complained of; and
- iv. The plaintiffs' initial letters of complaint were against Zoocasa, not Rogers, indicating they were aware it was a separate entity.

Discussion of Intent to Procure Breach of Contract and Authorize Copyright Infringement

359 The argument of the plaintiffs is that the authorization of copyright infringement and inducing breach of contract do not raise the issue of piercing the corporate veil. The liability of Rogers is alleged to arise from its position as the only shareholder of Zoocasa and its active participation, support and control over it.

360 To establish that Rogers authorized copyright infringement or induced breach of contract the plaintiffs must establish more than the level of involvement of Rogers that they have shown. The fact that Rogers funded, supported and assisted with the development of Zoocasa does not establish that Rogers authorized Zoocasa to infringe copyright or to breach the contract.

361 The plaintiffs assert that liability for authorizing copyright infringement can arise from facts that are less than direct and positive and that such liability can be established by a "sufficient degree of indifference".

362 While Rogers level of involvement in the planning, creation, funding and promotion of Zoocasa has been established the evidence does not establish that Rogers intended that Zoocasa breach copyright or Century 21's Terms of Use. Nor does the evidence support a finding that Rogers turned "a blind eye". I am not satisfied that the plaintiff has, on the balance of probabilities, succeeded in proving that Rogers is liable for Zoocasa's copyright infringement or breach of contract.

Injunctive Relief

Century 21's Claim for Injunctive Relief

363 Century 21 seeks an injunction preventing the defendants from accessing the Century 21 Website.

364 Zoocasa states that an injunction is not required because in September 2008, it declared that it would not index a website that did not want to be indexed.

365 However, on discovery, Mr. Lee, on behalf of Zoocasa, stated that while the defendant Zoocasa has agreed not to access the Century 21 Website generally, they intend to resume accessing the Website where individual realtors give their consent.

366 While individual realtors have certain rights with respect to the text and the photographs, it is Century 21 which controls the Terms of Use upon which users can access their Website. It would be a breach of the Terms of Use if Zoocasa indexed that portion of the Century 21 Website respecting individual realtors who have consented as such access also requires the consent of Century 21.

367 However, the defendant notes that on discovery Century 21 stated that it had no objection to Zoocasa indexing and linking to any property listing on century21.ca where the realtor in question gives consent. A close reading of the discovery evidence reveals that Century 21 does not object to brokers or salespeople giving permission for the indexing of data by Zoocasa "... if they send the data ... to Zoocasa". Likewise a letter from solicitors for Century 21 indicates that the plaintiff does not object to Zoocasa obtaining information directly from their brokers but at no time has Century 21 consented to such material being accessed through its Website.

368 Century 21's concern is that the apparent policy of the defendant Zoocasa has changed and may change again. Given that fact, they seek an injunction to ensure that the plaintiffs' contractual rights respecting the Terms of Use are protected.

369 Given my findings respecting copyright infringement, Century 21's claim for an injunction can only be based in breach of contract and cannot be enforced as a remedy for copyright infringement. An injunction is an equitable remedy and is within the court's discretion. Before granting an injunction the court must first consider whether damages or an injunction, or both, are the appropriate remedy for breach of contract.

370 In *North West Community Video Ltd. v. T.W.U.*, [1978] 2 W.W.R. 289 (B.C. S.C.), at 296 MacDonald J. adopted the words of A.L. Smith, L.J. in *Shelfer v. London Electric Lighting Co.* (1894), [1895] 1 Ch. 287 (Eng. C.A.), at 322-323, respecting the granting of a permanent injunction:

...

In my opinion, it may be stated as a good working rule that —

- (1) If the injury to the plaintiff's legal rights is small,
- (2) And is one which is capable of being estimated in money,
- (3) And is one which can be adequately compensated by a small money payment,
- (4) And the case is one in which it would be oppressive to the defendant to grant an injunction:

then damages in substitution for an injunction may be given ...

...

371 A.L. Smith, L.J. then said at p. 323:

...

It is impossible to lay down any rule as to what, under the differing circumstances of each case, constitutes either a small injury, or one that can be estimated in money, or what is a small money payment, or an adequate compensation, or what would be oppressive to the defendant. This must be left to the good sense of the tribunal which deals with each case as it comes up for adjudication. ... Each case must be decided upon its own facts; but to escape the rule it must be brought within the exception....

...

372 In situations where damages are an adequate remedy, injunctions will be inappropriate to restrain actionable wrongs: *London & Blackwall Railway v. Cross* (1886), 31 Ch. D. 354 (Eng. C.A.), at 369. In the same manner, injunctions should not be granted in situations where the plaintiff can be fully compensated by an award of damages or where the wrongdoing has ceased and there is no likelihood of its recurring: *Proctor v. Bayley* (1889), 42 Ch. D. 390 (Eng. C.A.).

373 However, where the defendant wrongfully interferes with the claimant's rights as an owner of property, and intends to continue that interference, the claimant is *prima facie* entitled to an injunction: *Hilton v. British Columbia (Ministry of Transportation & Highways)*, [1986] B.C.J. No. 1077 (B.C. S.C.) at para. 18 citing *Pride of Derby & Derbyshire Angling Assn. Ltd. v. British Celanese Ltd.* (1952), [1953] Ch. 149 (Eng. C.A.), at 181; *Canadian Pacific Ltd. v. Paul* (1983), 2 D.L.R. (4th) 22 (N.B. C.A.), at 40.

374 An injunction may also be necessary in circumstances where the breach of contract cannot be fairly compensated through a monetary award. A defendant cannot buy the privilege of infringing the claimant's rights.

375 In my view, the plaintiff is entitled to injunctive relief given the difficulty of assessing damages, Zoocasa's past conduct and their apparent view that with the consent of Century 21 brokers they can access the Century 21 Website in violation of the Terms of Use.

376 Century 21 is therefore entitled to a permanent injunction restraining Zoocasa, by itself, its servants, agents, affiliates, subsidiaries, or otherwise from accessing the Century 21 Website in contravention of the Terms of Use posted on the Century 21 Website.

Bilash and Walton's Claim for Injunctive Relief

377 The notice of motion also seeks injunctive relief on behalf of Bilash and Walton. I am not inclined to grant injunctive relief on the claims advanced by Bilash and Walton as there is no indication that Zoocasa is or will continue to infringe the copyright of Bilash and Walton.

Damages for Breach of Contract

378 On September 2, 2008 solicitors for Century 21 advised Zoocasa that the plaintiff did not consent to their proposed access to and use of their Website. Despite that knowledge, Zoocasa proceeded to access the Website.

379 In order to award damages, I must first determine what damages have been established.

380 Century 21's evidence is that they suffered loss, inconvenience and expense as a result of having to deal with Zoocasa's actions. Employees spent time dealing with the problems created by the Zoocasa Website. The evidence of Mr. Lawby of Century 21 was that he had spent approximately 18 hours dealing with Zoocasa's breach of the Terms of Use, not including time spent preparing for and attending for discovery and that his staff had spent another six hours also dealing with the same matters. His evidence was that his time, and that of his staff, was valuable and that dealing with Zoocasa's breach has been a cost to the plaintiff's business.

381 In addition, Zoocasa's actions caused problems for Century 21 with respect to its relationship with what is called the REB4 Boards being a group consisting of the the Real Estate Board of Greater Vancouver, Fraser Valley Real Estate Board, the Chilliwack and District Real Estate Board, and the Calgary Real Estate Board.

382 Time and legal expenses were incurred when Century 21 was required to consult with legal counsel to protect their proprietary interest in the listings and photographs contained on their Website. Additionally, their Website operator WTL spent time dealing with the Zoocasa Website which resulted in an opportunity cost to Century 21 as WTL had less time to spend

developing and promoting the Century 21 Website. WTL estimated the Zoocasa actions used approximately 70 hours of staff time that would have otherwise been devoted to expanding, improving and promoting the Century 21 Website.

383 Century 21 also claims loss specifically arising from Zoocasa's practice for a time of framing from the Century 21 Website within its own Website. As noted earlier, framing involves the practice of displaying information from one website within another in a manner that has the appearance of making the framed site's content that of the framing website. The result is confusion for the user as to the source of the content. It also permits the website that is doing the framing to claim attribution for the page viewing giving it an advantage in terms of how websites are ranked by search engines. The framing commenced in August 2009 and ceased after the matter was raised at the discovery of Mr. Lee on December 14, 2009.

384 The defendants state that no damages of any substantial character have been established. As a corporation they state Century 21 has not shown any actual monetary loss. They specifically note the following:

- a. There is no evidence of specific harm suffered by Century 21 as a result of time spent on the Zoocasa issue;
- b. No estimates of the loss is given other than hours spent which, as a result, fails to provide a basis for calculating the appropriate measure of damages;
- c. The legal costs incurred in writing to the REB4 Boards have not been provided;
- d. Mr. Lawby of Century 21 estimates he spent 18 hours dealing with Zoocasa's breach but does not provide details as to what he did for those 18 hours. As a result the court cannot determine whether or not the time spent was actually caused to be spent by Zoocasa's actions nor can the court determine whether they were necessary or not;
- e. The REB4 claim respecting third party linking involved a letter sent by REB4 to WTL, not Century 21;
- f. WTL asserts that staff spent 70 hours on the Zoocasa breach but provides no evidence of how that delayed certain activities respecting Century 21's Website nor evidence of the actual damage suffered by the delay of certain other activities to be performed for the benefit of Century 21. There is no evidence of what the delay was or its impact;
- g. WTL fails to specify what issues relating to the Zoocasa Website were dealt with. Nor does the evidence establish if the issues arose from indexing or some other matter.

385 As a result the defendants state the court cannot determine appropriate damages even if the breach is proven.

386 I am satisfied that Zoocasa breached Century 21's Terms of Use and in doing so caused loss, inconvenience and expense to Century 21. They may have done so in the belief that such Terms of Use were not binding. However, I have determined that such belief was incorrect. An award of damages is therefore appropriate.

387 In *Pinewood Recording Studios Ltd. v. City Tower Development Corp.* (1996), 31 C.L.R. (2d) 1, 67 A.C.W.S. (3d) 71 (B.C. S.C.), Pinewood J. described the assessment of damages as follows:

169 A Judge approaching this task of assessment is to be reminded of the comments by McEachern C.J.B.C. in *Begusic v. Clark, Wilson & Co.* (1991), 57 B.C.L.R. (2d) 273 at 290 (B.C.C.A.):

The assessment of damages is not a precise science; it is not even a calculation.

Elsewhere in *Begusic*, Chief Justice McEachern referred to the well known instruction of Lord Blackburn in *Livingstone v. Rawyards Coal Company* (1880), 5 App. Cas. 25 at 39 (H.L.) wherein he said the measure of damages should be:

... that sum of money which will put the party who has been injured, or who has suffered, in the same position as he would have been in if he had not sustained the wrong for which he is now getting his compensation or reparation.

388 Century 21's claim for damages for breach of contract consists of both a general damage claim founded in damages for breach but also includes as part of the damages claimed expenses incurred in dealing with the consequences of the breach. The latter is normally addressed through the issue of costs. S. M. Waddams, *Law of Damages*, 3d ed., (Canada Law Book: Aurora, Ont., 1997) at 314 states:

Litigation costs are not generally considered to be part of the law of damages However, some cases have permitted recovery, not as costs but as damages, of the expense of investigating the defendant's wrong. Such recovery has been allowed in cases of breach of contract and of inducing breach of contract, and nuisance, and there seems no reason why recovery should not be supported wherever investigatory costs can be anticipated as a natural and probable consequence of the defendant's wrong.

389 Waddams relies on *Acme Investments Ltd. v. York Structural Steel Ltd.* (1974), 9 N.B.R. (2d) 699, 1 A.P.R. 699 (N.B. C.A.), a breach of construction contract case where the New Brunswick Court of Appeal stated:

31 While the plaintiff is clearly entitled to the cost of correcting deficiencies in the defendant's work on the principle of reinstatement I do not think the plaintiff is precluded from recovering any other expense reasonably incurred in ascertaining the extent of the defendant's breaches of contract and the cost of correcting them. In *Victoria Laundry (Windsor) Ld. v. Newman Industries Ld. Coulson & Co. Ld. (Third Parties)*, [1949] 2 K.B. 528, Asquith, L.J., said at p. 539:

(1) It is well settled that the governing purpose of damages is to put the party whose rights have been violated in the same position, so far as money can do so, as if his rights had been observed: *Sally Wertheim v. Chicoutimi Pulp Company*, [1911] A.C. 301).

(2) In cases of breach of contract the aggrieved party is only entitled to recover such part of the loss actually resulting as was at the time of the contract reasonably foreseeable as liable to result from the breach. [*page715]

(3) What was at that time reasonably so foreseeable depends on the knowledge then possessed by the parties or, at all events, by the party who later commits the breach.

(4) For this purpose, knowledge 'possessed' is of two kinds; one imputed, the other actual. Everyone, as a reasonable person, is taken to know the 'ordinary course of things' and consequently what loss is liable to result from a breach of contract in that ordinary course. This is the subject matter of the 'first rule' in *Hadley v. Baxendale*, 9 Exch. 341.

32 In my opinion reasonable person in the position of the defendant would be taken to know there was a serious possibility that in the "ordinary course of things" an owner who had reason to believe a building contract was improperly performed by the builder would seek the assistance of a professional engineer to ascertain the deficiencies and the cost of correcting them. In its factum the plaintiff submits that the award of \$ 30,000.00 is reasonable. In my opinion the cost of such services as are reasonable would not be less than that sum and I would accordingly not disturb the award.

390 In my view, it was reasonably foreseeable that breach of the Terms of Use would cause the plaintiff to incur certain expenses arising from the breach. Century 21 is entitled to damages for such loss as part of their claim for general damages for breach of contract.

391 Century 21 also claims that as a result of Zoocasa framing their Website from August 20, 2008 to December 14, 2009, they have suffered damages. However, the evidence in support is limited to the assertion that framing causes confusion to the user as to the source of content and results in the framer being able to claim attribution.

392 While Century 21 has established that it suffered loss for breach of contract, they have not provided evidence of the value of that loss. Presumably they could have done so given the nature of some of the damages claimed. For example, the time spent by Wheretolive.com has not been supported by any values, the legal fees incurred to respond to REB4's communications have not been disclosed, nor has the value of the time spent by Century 21 staff dealing with the Zoocasa breach been quantified.

393 In such a situation should the court order damages?

394 Just because the loss is difficult to establish does not mean damages will not be awarded. However, that assumes there are difficulties in quantifying the loss, not the situation where the plaintiff has chosen not to lead specific evidence on the issue.

395 An award of damages for breach of contract where proof of damage is minimal can be addressed by an award of nominal damages although nominal does not necessarily mean that the damages will be small: *RBC Dominion Securities Inc. v. Merrill Lynch Canada Inc.*, 2004 BCSC 1464 (B.C. S.C.), (where a nominal award was \$1,000) var'd on other matters 2007 BCCA 22 (B.C. C.A.), var'd on other matters 2008 SCC 54 (S.C.C.). However, in *McGee v. Clarke*, [1927] 1 W.W.R. 593 (B.C. C.A.) and *State Vacuum Stores of Canada Ltd. v. Phillips*, [1954] 3 D.L.R. 621 (B.C. C.A.) both courts relied on the dictum of Lord Halsbury in "*Mediana*" (*The*), [1900] A.C. 113 at 116 (H.L.) and held that nominal damages are not the same as small damages. However, it seems evident from the context in "*Mediana*" (*The*) that Lord Halsbury meant that compensatory damages might sometimes be small, not that nominal damages should be large.

396 I find that Century 21 has not proven damages of any substantial character. In my view however an award of nominal damages is appropriate. Such damages need not be small: *Green v. Stanton* (1969), 6 D.L.R. (3d) 680 (B.C. C.A.), at 691-692. As stated in *Green*:

It has been long established that because damages cannot be calculated with certainty is no reason why an award should not be made, and that a Judge must do the best he can to arrive at a proper figure. Notwithstanding the deficiencies in the evidence and the failure of the respondents to produce, or to even attempt to produce, evidence of how their income was affected, I am prepared to say that some loss must have been sustained. But whether it be trivial or substantial cannot be determined from the evidence. The onus was on the respondents to at least give some realistic base for pecuniary compensation, and it is not the obligation of the appellant to "account" for any profits he might have made, as was apparently thought proper by the learned trial Judge.

The large amount awarded, calculated at \$750 per month, appears to me to be based on pure conjecture speculated on an unfortunate misinterpretation of the only evidence dealing with damages. In my respectful view, the respondents are entitled to damages, but they must be nominal in the absence of anything upon which to properly assess them. Nominal damages need not be small, and in recent times more than token damages are often given. I would set aside the award of damages in the amount of \$14, 927.42 and substitute therefore the sum of \$1,000.

397 In my view, based on the lack of evidence of loss and expenses incurred relating to the actions of Zoocasa, an award in the sum of \$1,000 in favour of Century 21 would be appropriate.

Damages for Copyright Infringement

Position of the Parties

398 On May 18, 2010, the plaintiffs delivered an election to claim statutory damages pursuant to s. 38.1 of the *Copyright Act*. Section 38.1 provides as follows:

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 all infringements involved in the proceedings, with respect to any one work or other subject-matter, for which any one infringer is liable individually, or for which any two or more infringers are liable jointly and severally, in a sum of not less than \$500 or more than \$20,000 as the court considers just.

Where defendant unaware of infringement

(2) Where a copyright owner has made an election under subsection (1) and the defendant satisfies the court that the defendant was not aware and had no reasonable grounds to believe that the defendant had infringed copyright, the court may reduce the amount of the award to less than \$500, but not less than \$200.

399 In seeking statutory damages for each individual Work, the plaintiffs Bilash and Walton claim for a total of 128 individual Works (29 property descriptions and 99 photographs) and submit that \$500 per infringement is appropriate for total statutory damages of \$64,000.

400 With respect to property descriptions, 24 belong to Bilash and five to Walton. All 99 photographs belong to Bilash.

401 The plaintiffs further argue that the defendants cannot be said to have acted in good faith for the purposes of s. 38.1, and, for this reason, a significant award of damages is appropriate. They assert that a significant award is also needed to deter not only the defendants but others who might adopt a similar online business model.

402 The defendants state that if statutory damages are warranted that they should be assessed at the lowest possible quantum. They submit there is no evidence of bad faith, no need to deter other infringements of the copyright in question and finally that the court has a discretion to order a per work award of statutory damages below \$200.

403 The president of Zoocasa, J. R. Langlois, in his affidavit of May 13, 2010, deposed that Zoocasa was in a "learning process concerning some aspects of the real estate industry. In particular, the question of rights in respect of property listing data is very entangled in Canada." He stated that:

This leads to complex issues as different parties - the realtors, MLS, and the website operators such as Canada 21 - assert various kinds of rights with respect to the on-line property listing data. These complexities had not been apparent to Zoocasa originally.

By July 2009, Zoocasa had learned a considerable amount about the complex structure of the real estate industry in Canada, but had not turned this knowledge into a fully-conceived business plan.

Since July 2009, Zoocasa has evolved considerably in its understanding of both the data issues and the business issues.

404 In other words, Zoocasa apparently entered into the market without due consideration of the legal issues surrounding copyright and intellectual property generally. Counsel for Zoocasa also referred to the conduct of both parties leading to this litigation as stubborn.

405 I am not satisfied that Zoocasa's intransigence was rooted in bad faith. Rather, it appears to have its roots in entering into a new area with a new business model and a lack of appreciation of the legal issues arising. In *Gateway Realty Ltd. v. Arton Holdings Ltd.* (1991), 106 N.S.R. (2d) 180 (N.S. T.D.), at 191-198, aff'd on appeal (1992), 112 N.S.R. (2d) 180 (N.S. C.A.), the trial judge articulated the doctrine of good faith performance in the following terms:

The law requires that parties to a contract exercise their rights under that agreement honestly, fairly and in good faith. This standard is breached when a party acts in a bad faith manner in the performance of its rights and obligations under the contract. "Good faith" conduct is the guide to the manner in which the parties should pursue their mutual contractual objectives. Such conduct is breached when a party acts in "bad faith" - a conduct that is contrary to community standards of honesty, reasonableness or fairness. The insistence on a good faith requirement in discretionary conduct in contractual formation, performance, and enforcement is only the fulfillment of the obligation of the courts to do justice in the resolution of disputes between contending parties.

406 In *Mesa Operating Ltd. Partnership v. Amoco Canada Resources Ltd.* (1994), 19 Alta. L.R. (3d) 38 (Alta. C.A.) at para. 14, Kerans J. accepted the trial judge's observations regarding implied contractual terms of good faith and corresponding bad faith. To this end Kerans J. held that "the duty to act in good faith extends beyond the duty to avoid acting for bad motives". At trial, the trial judge held and Kerans J. accepted that:

14 . . .

In Canada, the test ... does not include the need for the plaintiff to show that the defendant intentionally acted in bad faith.

... the common law duty to perform in good faith is breached when a party acts in bad faith, ...

407 The obligation of good faith is an obligation not to act in relation to the contract so as to nullify the bargain objective or benefit owing to the other party: *Mannpar Enterprises Ltd. v. Canada*, 1999 BCCA 239 (B.C. C.A.); *Schluessel v. Maier*, 2001 BCSC 60 (B.C. S.C.). Once the contract has been entered into, the parties must perform their respective obligations in good faith: *Gateway Realty Ltd.* above.

408 However, failure to act in good faith does not necessarily imply that a party has acted in bad faith. Bad faith conduct is conduct that is contrary to community standards of honesty, reasonableness or fairness. It is also conduct where a party acts in a manner that substantially nullifies the contractual objectives or causes significant harm to the other, contrary to the original purposes or expectations of the parties: *Mesa Operating Ltd. Partnership*.

409 Good faith conduct on the other hand holds that the parties should pursue their mutual contractual objectives. From this perspective, the good faith obligation is different from the obligation to act reasonably in that the interests of the party acting in good faith are not subordinate to any other party. Rather, the party acting in good faith cannot act in ways that are abusive, unfair or dishonest: *Peel Condominium Corp. No. 505 v. Cam-Valley Homes Ltd.* (2001), 196 D.L.R. (4th) 621 (Ont. C.A.); *Freedman v. Mason*, [1958] S.C.R. 483 (S.C.C.).

410 I cannot find that Zoocasa acted dishonestly, unreasonably or unfairly toward the plaintiffs. Although Century 21 alleges that Zoocasa's refusal to operate by the Robot Exclusion Standard indicates bad faith, I do not find it to be so. Rather, Zoocasa believed that a website that does not want to be indexed could simply block their IP address. As I mentioned earlier, Zoocasa appears to have entered into a new market without due appreciation for the standardized protocols of the industry. While Zoocasa may have been negligent in educating themselves regarding industry and community standards, I cannot find that they acted in bad faith.

Discussion of Damages for Copyright

411 Subsection 38.1(5) of the *Copyright Act* provides a list of relevant factors for the court to consider in exercising its discretion when awarding statutory damages. Those relevant factors include:

Factors to consider

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

The analysis of Taylor J. in *Pinewood Recording Studios Ltd.*, discussed above, is still relevant to damages for copyright infringement.

412 Additionally, in *Microsoft Corp. v. PC Village Co.*, 2009 FC 401 (F.C.), the Federal Court considered the factors listed in s. 38.1(5) of the *Copyright Act*. The defendants were found to have infringed Microsoft's copyright in its Microsoft Office software programs. In assessing statutory damages, the court emphasized that the defendants had ignored cease and desist letters from Microsoft. The court held that an award of statutory damages must be sufficiently high to deter future infringements by the named defendants and others: at paras. 34 and 39. The court awarded \$10,000 per infringement.

413 The plaintiffs submit that in the present case, as in *Microsoft*, the defendants ignored repeated cease and desist letters from the plaintiffs and continued to infringe copyright even after the litigation had started. They state that the defendants also made a public pronouncement that they did not index websites that did not want to be indexed and allowed that pronouncement to remain publicly accessible long after they knew it was no longer true.

414 In reply the defendants submit that there is no evidence of bad faith and that in fact Zoocasa held an honest belief in its ability to index a publicly available website, particularly where that website encouraged other search engines to do what they viewed as the same thing. They also note that the effect of their actions was to promote the plaintiffs' listings and hence their business. In addition, the defendants have voluntarily stopped indexing the plaintiffs' Website and have agreed to not index it further save for realtors or brokers who provide their consent.

415 The plaintiffs have relied on the cease and desist letters sent to the defendants in September and October 2008. The defendants argue that those letters were sent by counsel for Century 21, not Bilash or Walton, and at the time Century 21 had no ownership in copyright nor a basis to claim for infringement. Century 21 was entitled to seek compliance with their Terms of Use. The cease and desist letters of September 8, 2008, was restricted to notice of copyright infringement. The October 6, 2008, letter gave notice respecting alleged breach of both copyright and contract.

416 However, the defendants' argument focuses on the legitimacy of the letters and ignores the fact of notice. Surely the point is that notice alerts them to a potential claim which may or may not be proven valid at a future date. To ignore a claim however is to run the risk of potential liability if breach of contract or ownership of copyright and its infringement is eventually proven.

417 The defendants also rely on s. 38.1(2) of the *Copyright Act* which states:

Where defendant unaware of infringement

(2) Where a copyright owner has made an election under subsection (1) and the defendant satisfies the court that the defendant was not aware and had no reasonable grounds to believe that the defendant had infringed copyright, the court may reduce the amount of the award to less than \$500, but not less than \$200.

Special case

(3) Where

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

(b) the awarding of even the minimum amount referred to in subsection (1) or (2) would result in a total award that, in the court's opinion, is grossly out of proportion to the infringement,

the court may award, with respect to each work or other subject-matter, such lower amount than \$500 or \$200, as the case may be, as the court considers just.

418 Since the defendants were put on notice in the fall of 2008 that copyright subsisted in the property descriptions and photographs, the defence set out in s. 38.1(2) of the *Copyright Act* does not assist them. Section 38.1(3) however is potentially available to the defendants.

419 In *Telewizja Polsat S.A. v. Radiopol Inc.*, 2006 FC 584 (F.C.), the Federal Court found that the overarching mandate of a judge assessing statutory damages in lieu of loss of profits is to arrive at "a reasonable assessment in all of the circumstances in order to yield a just result.": para. 37. Pursuant to s. 38.1 3(b), the court has the power to order a per-work award of statutory damages of below \$200 "where the awarding of even the minimum amount referred to in ss. 38.1 (1) or (2) would result in a total award that, in the court's opinion, is grossly out of proportion to the infringement."

420 As the court noted in *Telewizja* at paras. 38 and 39:

[38] Such a mandate clearly flows from the structure of section 38.1 which provides an initial range per work of statutory damages from a minimum of \$500 to a maximum of \$20,000 per work.

[39] This initial range may be cut back in two circumstances: first, in the case of an innocent defendant, which is not the case here, and second, in the case where there is more than one work in a single medium and where awarding the minimum per work would yield a total award that is grossly out of proportion to the infringement.

421 There are a number of factors that may be relevant in considering the applicability of 38.1(3). In this case the length of the infringement was relatively short, there was no evidence that a high award is required to deter others. The defendant stopped the activity and I have not made a finding of bad faith on the part of Zoocasa. In addition, the nature of the infringement, the fact that the copyright serves a commercial purpose, and that there was, in the eyes of the defendants, a benefit to the plaintiff, supports a lesser award. Of most importance is that the actual damages claimed are not substantial. The evidence of Bilash and Walton on discovery was as follows:

Bilash

539 Q Now, Mr. Bilash, I've asked your counsel for particulars of the damages claimed and for documents related to damages, and I want to ask you, do you assert that you've suffered any damage that you can identify by reason of the indexing of any properties on Zoocasa?

A Have I suffered any damage from Zoocasa indexing my properties? That's the question?

540 Q Yes.

A I guess I don't know if I have, but I don't know if I've gained anything either.

Walton has, similarly, said:

280 Q But is it fair to say so far as your knowledge goes, it hasn't had any sort of impact on your business as a salesperson?

A Like I said, I don't know. It may have. It may have not.

281 Q But you don't — you can't identify for me any impact that it's had on your business?

A Correct.

422 Due the temporary nature of online property listings, the plaintiffs are unable to provide evidence of each and every instance of Zoocasa's copyright infringement of their photographs and property descriptions. However, the plaintiffs have adduced evidence that Zoocasa infringed copyright in no less than 99 photographs and 29 property descriptions.

423 The defendants dispute the number of infringements claimed. However, they base that on factors such as not locating the property description, only finding properties under the MLS copies or not matching the property descriptions on the Zoocasa pages. I am not satisfied that the defendants have shown that the number of infringements differs from those established by the plaintiffs.

424 Zoocasa acknowledges indexing the Century 21 Website during the periods alleged and the evidence of the plaintiffs respecting the properties listed on the site during those periods. I am satisfied that the plaintiff has established that the defendant Zoocasa infringed copyright of the plaintiffs with respect to at least 29 properties of which Bilash was the original owner of 24 and Walton was the original owner of 5 of the infringed listings.

425 Likewise, with respect to the 126 photographs claimed to have been copied I am satisfied that at least that many were copied by Zoocasa. The 99 photographs for which copyright infringement are claimed are those that are the property of Bilash.

426 Statutory damages provided for in s. 38.1, are set at \$500.00 per infringement, this would result in a statutory damage award of \$64,000. However, given the circumstances of this case including Zoocasa's apparent unintentional infringement such an award is grossly out of proportion to the infringements. I therefore order damages in the sum of \$250 per infringement resulting in a total statutory damage award of \$32,000.

427 Bilash, as the holder of copyright to 24 real property descriptions and 99 photographs is entitled to damages of \$30,750. Walton, as the holder of copyright to 5 real property descriptions is entitled to damages in the sum of \$1,250.

Punitive Damages

428 Punitive damages are awarded where the conduct of a party is egregious and deterrence is appropriate. Such damages can be awarded for breach of contract and, as well, for infringement of copyright. The act does not prohibit such an award: *Pro Arts Inc. v. Campus Crafts Holdings Ltd.* (1980), 28 O.R. (2d) 422 (Ont. H.C.), at 441.

429 The plaintiff describes the conduct of the defendants as "calculated and deliberate". They say that the defendants are "sophisticated commercial entities that employ similar Terms of Use on their own websites." They point to the continued indexing and copying of the Century 21 Website after notice that the plaintiffs objected and the awareness of the defendant Zoocasa that their right to do so was in issue. They also note from the discovery of Mr. Lee on behalf of Zoocasa:

693 Q Now, this one has been printed off more recently. And can you confirm that what is happening here is what we talked about earlier; there is framing going on. Correct?

A This was brought to my attention yesterday. Yes.

694 Q And so the Century 21 link is framed by a Zoocasa page? Is that fair?

A Yes.

695 Q And, taking a look at the url, do you recall you said that whether there is a problem with attribution will depend on the source url for the frame and which domain it's under. So, which domain is this Century 21 listing we are looking at on the second page under?

A Zoocasa.

696 Q Okay. Thank you. Would you agree with me that Zoocasa is doing here what its terms of use would prohibit others from doing?

A Yes.

697 Q Let me show you a series of some other similar listings. These are marked as Exhibits 21, 22 and 23. Take a moment and look through those. Just for the record, 21, 22 and 23; Exhibits 21, 22 and 23 are the Plaintiffs' numbers beginning 232, 237 and 242 respectively.

EXHIBIT NO 21: Plaintiffs' document 232.

EXHIBIT NO. 22: Plaintiffs' document 237.

EXHIBIT NO. 23: Plaintiffs' document 242.

MR. VESELY:

698 Q Have you had a chance to look through those three exhibits?

A Yes.

699 Q I appreciate you haven't done those searches yourself but do they appear to you, from your knowledge of the Zoocasa web site, to be in each case the Zoocasa property description page with the broker or agent page that one would find when one clicked on the link?

A Yes.

700 Q In each case, the broker listing page is framed with a Zoocasa domain url. Correct?

A Yes.

701 Q When did Zoocasa begin using framing?

A I don't know the answer to that. I only was made aware of this yesterday.

702 Q Does it raise concerns for you?

A I have asked them to look at this.

703 Q Have you asked them to look at this because it raises some concerns for you?

A Yes.

704 Q And could I leave it as an outstanding request to determine when framing began?

MR. MARTIN: Yes.

430 I note that Zoocasa, which had begun framing the Century 21 Website on August 20, 2008, ceased doing so immediately after Mr. Lee's examination for discovery on December 14, 2009.

431 The defendants' position is summarized by them as follows:

- a. Zoocasa held an honest belief in its ability to index a publicly available website;
- b. Zoocasa believed that it was only doing what the plaintiffs already did which was to actively encouraged other search engines to search its site;
- c. Zoocasa believed that in doing so, it was only serving to promote the plaintiffs' listings, and thus, their business.

432 Punitive damages are granted where the conduct of the plaintiff is particularly egregious. I am not satisfied that in the circumstances of this case the conduct of the defendant was particularly egregious. In my opinion the conduct of the defendant Zoocasa, while deliberate, was not of a nature that warrants punitive damages.

Summary

433 In summary:

- a. The claim of Century 21 for damages for copyright infringement is dismissed;
- b. The claim of Century 21 for damages for breach of contract is granted. The sum of \$1,000 is awarded;
- c. All claims against Rogers are dismissed;
- d. The claim of Century 21 for damages for trespass are dismissed;
- e. Century 21 is granted a permanent injunction against Zoocasa;

f. The plaintiff Bilash is entitled to statutory damages for breach of copyright in the sum of \$30,750;

g. The plaintiff Walton is entitled to statutory damages for breach of copyright in the sum of \$1,250;

f. The plaintiffs Century 21, Bilash and Walton are entitled to interest pursuant to the *Court Ordered Interest Act*.

434 If the parties cannot agree on costs they are at liberty to apply.

Action allowed in part.

End of Document

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Tab 5

Most Negative Treatment: Distinguished

Most Recent Distinguished: [Public Performance of Musical Works, Re](#) | 2012 SCC 35, 2012 CarswellNat 2378, 2012 CarswellNat 2379, 432 N.R. 1, 38 Admin. L.R. (5th) 1, J.E. 2012-1380, 102 C.P.R. (4th) 204, 216 A.C.W.S. (3d) 219, 347 D.L.R. (4th) 235, [2012] 2 S.C.R. 283, [2012] A.C.S. No. 35, [2012] S.C.J. No. 35 | (S.C.C., Jul 12, 2012)

2004 SCC 13, 2004 CSC 13
Supreme Court of Canada

CCH Canadian Ltd. v. Law Society of Upper Canada

2004 CarswellNat 446, 2004 CarswellNat 447, 2004 SCC 13, 2004 CSC 13, [2004] 1 S.C.R. 339, [2004] S.C.J. No. 12, 129 A.C.W.S. (3d) 177, 236 D.L.R. (4th) 395, 247 F.T.R. 318 (note), 30 C.P.R. (4th) 1, 317 N.R. 107, J.E. 2004-602, REJB 2004-54747

The Law Society of Upper Canada, Appellant/Respondent on cross-appeal v. CCH Canadian Limited, Respondent/Appellant on cross-appeal

The Law Society of Upper Canada, Appellant/Respondent on cross-appeal v. Thomson Canada Limited c.o.b. as Carswell Thomson Professional Publishing, Respondent/Appellant on cross-appeal

The Law Society of Upper Canada, Appellant/Respondent on cross-appeal v. Canada Law Book Inc., Respondent/Appellant on cross-appeal and Federation of Law Societies of Canada, Canadian Publishers' Council and Association of Canadian Publishers and Société québécoise de gestion collective des droits de reproduction (COPIBEC) and The Canadian Copyright Licensing Agency (Access Copyright), Interveners

Arbour J., Bastarache J., Binnie J., Deschamps J., Iacobucci J., LeBel J., Major J., McLachlin C.J.C.

Heard: November 10, 2003

Judgment: March 4, 2004

Docket: 29320

Proceedings: reversing *CCH Canadian Ltd. v. Law Society of Upper Canada* (2002), 2002 FCA 187, 2002 CarswellNat 1000, 18 C.P.R. (4th) 161, 212 D.L.R. (4th) 385, 289 N.R. 1, 2002 CAF 187, 2002 CarswellNat 2841, [2002] 4 F.C. 213, 224 F.T.R. 111 (note) (Fed. C.A.); reversing in part *CCH Canadian Ltd. v. Law Society of Upper Canada* (1999), 1999 CarswellNat 2123, 179 D.L.R. (4th) 609, 169 F.T.R. 1, 2 C.P.R. (4th) 129, 72 C.R.R. (2d) 139, [2000] 2 F.C. 451, 1999 CarswellNat 3080 (Fed. T.D.); additional reasons at *CCH Canadian Ltd. v. Law Society of Upper Canada* (2000), 2000 CarswellNat 168, 184 D.L.R. (4th) 186, 4 C.P.R. (4th) 129 (Fed. T.D.)

Counsel: Gowling Lafleur Henderson, for the respondents/appellants on cross-appeal

Sim Hughes Ashton, McKay, for the intervener, the Federation of Law Societies of Canada

Borden Ladner Gervais, for the interveners, the Canadian Publishers' Council and the Association of Canadian Publishers

McCarthy Tétrault, for the interveners, Société québécoise de gestion collective des droits de reproduction (COPIBEC) and The Canadian Copyright Licensing Agency (Access Copyright)

Ogilvy Renault

Subject: Intellectual Property; Property; Civil Practice and Procedure; Constitutional

Table of Authorities

Cases considered by *McLachlin C.J.C.*:

Associated Newspapers Group plc v. News Group Newspapers Ltd. (1986), [1986] R.P.C. 515 (Eng. Ch. Div.) — referred to

Bell ExpressVu Ltd. Partnership v. Rex (2002), 2002 SCC 42, 2002 CarswellBC 851, 2002 CarswellBC 852, 100 B.C.L.R. (3d) 1, [2002] 5 W.W.R. 1, 212 D.L.R. (4th) 1, 287 N.R. 248, 18 C.P.R. (4th) 289, 166 B.C.A.C. 1, 271 W.A.C. 1, 93 C.R.R. (2d) 189, [2002] 2 S.C.R. 559 (S.C.C.) — considered

Beloff v. Pressdram Ltd. (1973), [1973] 1 All E.R. 241, [1973] R.P.C. 765 — referred to

Bishop v. Stevens (1990), 72 D.L.R. (4th) 97, [1990] 2 S.C.R. 467, 31 C.P.R. (3d) 394, 111 N.R. 376, 1990 CarswellNat 738, 1990 CarswellNat 1028 (S.C.C.) — referred to

C.A.P.A.C. v. CTV Television Network (1968), [1968] S.C.R. 676, 38 Fox Pat. C. 108, 55 C.P.R. 132, 68 D.L.R. (2d) 98, 1968 CarswellNat 26 (S.C.C.) — considered

C.B.S. Inc. v. Ames Records & Tapes (1981), [1981] 2 All E.R. 812, [1981] R.P.C. 407, [1981] 2 W.L.R. 973, 125 Sol. Jo. 412, [1982] Ch. 91 (Eng. Ch. Div.) — considered

Compo Co. v. Blue Crest Music Inc. (1979), [1980] 1 S.C.R. 357, 45 C.P.R. (2d) 1, 105 D.L.R. (3d) 249, (sub nom. *Blue Crest Music Inc. v. Compo Co.*) 29 N.R. 296, 1979 CarswellNat 640, 1979 CarswellNat 640F (S.C.C.) — considered

de Tervagne v. Beloeil (Town) (1993), 50 C.P.R. (3d) 419, (sub nom. *de Tervagne v. Beloeil (Ville)*) 65 F.T.R. 247, [1993] 3 F.C. 227, 1993 CarswellNat 222, 1993 CarswellNat 222F (Fed. T.D.) — followed

Édutile Inc. v. Automobile Protection Assn. (APA) (2000), 2000 CarswellNat 744, 2000 CarswellNat 1258, 188 D.L.R. (4th) 132, 255 N.R. 147, [2000] 4 F.C. 195, 6 C.P.R. (4th) 211, (sub nom. *Edutile Inc. v. Automobile Protection Association*) 181 F.T.R. 160 (Fed. C.A.) — referred to

Feist Publications Inc. v. Rural Telephone Service Co. (1991), 111 S.Ct. 1282, 113 L.Ed.2d 358, 59 U.S.L.W. 4251, 18 U.S.P.Q.2d 1275, 18 Media L. Rep. 1889, 121 P.U.R. 4th 1, 499 U.S. 340 (U.S. Kan.) — considered

Galerie d'art du Petit Champlain inc. c. Théberge (2002), 2002 SCC 34, 2002 CarswellQue 306, 2002 CarswellQue 307, (sub nom. *Théberge v. Galerie d'Art du Petit Champlain inc.*) 17 C.P.R. (4th) 161, (sub nom. *Théberge v. Galerie d'Art du Petit Champlain inc.*) 210 D.L.R. (4th) 385, 23 B.L.R. (3d) 1, (sub nom. *Théberge v. Galerie d'art du Petit Champlain inc.*) 285 N.R. 267, [2002] 2 S.C.R. 336 (S.C.C.) — considered

Goldner v. Canadian Broadcasting Corp. (1972), 7 C.P.R. (2d) 158 (Fed. T.D.) — referred to

Grignon v. Roussel (1991), 38 C.P.R. (3d) 4, 44 F.T.R. 121, 1991 CarswellNat 208 (Fed. T.D.) — referred to

Hubbard v. Vosper (1971), [1972] 2 Q.B. 84, [1972] 1 All E.R. 1023 (Eng. C.A.) — considered

Ladbroke (Football) Ltd. v. William Hill (Football) Ltd. (1964), [1964] 1 All E.R. 465, [1964] 1 W.L.R. 273 (U.K. H.L.) — referred to

Moorehouse v. University of New South Wales (1976), [1976] R.P.C. 151 (Australia H.C.) — not followed

Moreau v. St. Vincent (1950), 10 Fox Pat. C. 194, [1950] Ex. C.R. 198, 12 C.P.R. 32, [1950] 3 D.L.R. 713, 1950 CarswellNat 4 (Can. Ex. Ct.) — considered

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Pro Sieben Media AG v. Carlton UK Television Ltd. (1999), [1999] F.S.R. 610, [1999] 1 W.L.R. 605 (Eng. C.A.) — referred to

Sillitoe v. Mc-Graw Hill Book Co. (U.K.) Ltd. (1983), [1983] F.S.R. 545 (Eng. Ch.) — considered

Slumber-Magic Adjustable Bed Co. v. Sleep-King Adjustable Bed Co. (1984), [1985] 1 W.W.R. 112, 3 C.P.R. (3d) 81, 1984 CarswellBC 765 (B.C. S.C.) — considered

Tele-Direct (Publications) Inc. v. American Business Information Inc. (1997), 221 N.R. 113, 154 D.L.R. (4th) 328, 76 C.P.R. (3d) 296, 134 F.T.R. 80 (note), 1997 CarswellNat 2111, [1998] 2 F.C. 22, 37 B.L.R. (2d) 101, 1997 CarswellNat 2752 (Fed. C.A.) — considered

U & R Tax Services Ltd. v. H & R Block Canada Inc. (1995), 62 C.P.R. (3d) 257, 97 F.T.R. 259, 1995 CarswellNat 1343 (Fed. T.D.) — considered

University of London Press v. University Tutorial Press Ltd. (1916), [1916] 2 Ch. 601 (Eng. Ch. Div.) — considered

Statutes considered:

Copyright Act, R.S.C. 1985, c. C-42

Generally — considered

Pt. I — considered

Pt. III — considered

Pt. IV — considered

s. 2 "computer program" — considered

s. 2 "dramatic work" — considered

s. 2 "every original literary, dramatic, musical and artistic work" — considered

s. 2 "library, archive or museum" — considered

s. 2 "work" — referred to

s. 2.1 [en. 1993, c. 44, s. 54] — referred to

s. 3(1) "copyright" — considered

s. 3(1) "copyright" (f) — considered

s. 5 — considered

- s. 5(1) — referred to
- s. 27(1) — considered
- s. 27(2) — considered
- s. 27(2)(a) — considered
- s. 29 — considered
- ss. 29-29.2 — considered
- s. 29.1 [en. 1997, c. 24, s. 18(1)] — considered
- s. 29.2 [en. 1997, c. 24, s. 18(1)] — considered
- ss. 29.4-30 — referred to
- s. 30 — considered
- ss. 30.1-30.5 [en. 1997, c. 24, s. 18(1)] — referred to
- s. 30.2 [en. 1997, c. 24, s. 18(1)] — referred to
- s. 30.2(1) [en. 1997, c. 24, s. 18(1)] — considered
- s. 34(1) — considered

Treaties considered:

Berne Convention for the Protection of Literary and Artistic Works, 1886, 828 U.N.T.S. 221

Generally — referred to

North American Free Trade Agreement, 1992, C.T.S. 1994/2; 32 I.L.M. 296,612

Generally — referred to

Words and phrases considered

AUTHORIZE

[McLachlin C.J.C. (Iacobucci, Major, Bastarache, Binnie, Arbour, LeBel, Deschamps and Fish JJ. concurring):] "Authorize" means to "sanction, approve and countenance": *Muzak Corp. v. Composers, Authors & Publishers Assn. (Canada)*, [1953] 2 S.C.R. 182 (S.C.C.), at p. 193; *de Tervagne v. Beloeil (Town)*, [1993] 3 F.C. 227 (Fed. T.D.). Countenance in the context of authorizing copyright infringement must be understood in its strongest dictionary meaning, namely, "give approval to, sanction, permit, favour, encourage": see *The New Shorter Oxford English Dictionary* (1993), vol. 1, at p. 526. Authorization is a question of fact that depends on the circumstances of each particular case and can be inferred from acts that are less than direct and positive, including a sufficient degree of indifference: *C.B.S. Inc. v. Ames Records & Tapes*, [1981] 2 All E.R. 812 (Eng. Ch. Div.), at pp. 823-24. However, a person does not authorize infringement by authorizing the mere use of equipment that could be used to infringe copyright. Courts should presume that a person who authorizes an activity does so only so far as it is in accordance with the law: *Muzak Corp.*, *supra*. This presumption may be rebutted if it is shown that a certain relationship or degree of control existed between the alleged authorizer and the persons who committed the copyright infringement: *Muzak Corp.*, *supra*; *de Tervagne*, *supra*; see also, J.S. McKeown,

Fox Canadian Law of Copyright and Industrial Designs, 4th ed. (looseleaf), at p. 21-104 and P.D. Hitchcock, "Home Copying and Authorization" (1983), 67 C.P.R. (2d) 17, at pp. 29-33.

CASE SUMMARY

[McLachlin C.J.C. (Iacobucci, Major, Bastarache, Binnie, Arbour, LeBel, Deschamps and Fish JJ. concurring):] A summary of judicial reasons is not simply a copy of the original reasons. Even if the summary often contains the same language as the judicial reasons, the act of choosing which portions to extract and how to arrange them in the summary requires an exercise of skill and judgment.

DEALING

[McLachlin C.J.C. (Iacobucci, Major, Bastarache, Binnie, Arbour, LeBel, Deschamps and Fish JJ. concurring):] This raises a preliminary question: is it incumbent on the Law Society to adduce evidence that every patron uses the material provided for in a fair dealing manner or can the Law Society rely on its general practice to establish fair dealing? I conclude that the latter suffices. Section 29 of the *Copyright Act* [R.S.C. 1985, c. C-42] states that "[f]air dealing for the purpose of research or private study does not infringe copyright". The language is general. "Dealing" connotes not individual acts, but a practice or system. This comports with the purpose of the fair dealing exception, which is to ensure that users are not unduly restricted in their ability to use and disseminate copyrighted works. Persons or institutions relying on the s. 29 fair dealing exception need only prove that their own dealings with copyrighted works were for the purpose of research or private study and were fair. They may do this either by showing that their own practices and policies were research-based and fair, or by showing that all individual dealings with the materials were in fact research-based and fair.

FAIR DEALING

[McLachlin C.J.C. (Iacobucci, Major, Bastarache, Binnie, Arbour, LeBel, Deschamps and Fish JJ. concurring):] At the Court of Appeal [2002 CarswellNat 1000], Linden J.A. acknowledged that there was no set test for fairness, but outlined a series of factors that could be considered to help assess whether a dealing is fair. Drawing on the decision in *Hubbard*, *supra*, as well as the doctrine of fair use in the United States, he proposed that the following factors be considered in assessing whether a dealing was fair: (1) the purpose of the dealing; (2) the character of the dealing; (3) the amount of the dealing; (4) alternatives to the dealing; (5) the nature of the work; and (6) the effect of the dealing on the work. Although these considerations will not all arise in every case of fair dealing, this list of factors provides a useful analytical framework to govern determinations of fairness in future cases.

HEADNOTES

[McLachlin C.J.C. (Iacobucci, Major, Bastarache, Binnie, Arbour, LeBel, Deschamps and Fish JJ. concurring):] The Federal Court of Appeal [2002 CarswellNat 1000] held that "headnotes", defined as including the summary of the case, catchlines, statement of the case, case title and case information, are more than mere copies and hence "original" works in which copyright subsists. It found that the headnotes are more than simply an abridged version of the reasons; they consist of independently composed features. As Linden J.A. explained, at para. 73, the authors of the headnotes could have chosen to make the summaries "long or short, technical or simple, dull or dramatic, well written or confusing; the organization and presentation might have varied greatly".

Although headnotes are inspired in large part by the judgment which they summarize and refer to, they are clearly not an identical copy of the reasons. The authors must select specific elements of the decision and can arrange them in numerous different ways. Making these decisions requires the exercise of skill and judgment. The authors must use their knowledge about the law and developed ability to determine legal *ratios* to produce the headnotes. They must also use their capacity for discernment to decide which parts of the judgment warrant inclusion in the headnotes. This process is more than just a mechanical exercise. Thus the headnotes constitute "original" works in which copyright subsists.

ORIGINAL

[McLachlin C.J.C. (Iacobucci, Major, Bastarache, Binnie, Arbour, LeBel, Deschamps and Fish JJ. concurring):] For a work to be "original" within the meaning of the *Copyright Act* [R.S.C. 1985, c. C-42], it must be more than a mere copy of another work. At the same time, it need not be creative, in the sense of being novel or unique. What is required to attract copyright protection in the expression of an idea is an exercise of skill and judgment. By skill, I mean the use of one's knowledge, developed aptitude or practised ability in producing the work. By judgment, I mean the use of one's capacity for discernment or ability to form an opinion or evaluation by comparing different possible options in producing the work. This exercise of skill and judgment will necessarily involve intellectual effort. The exercise of skill and judgment required to produce the work must not be so trivial that it could be characterized as a purely mechanical exercise. For example, any skill and judgment that might be involved in simply changing the font of a work to produce "another" work would be too trivial to merit copyright protection as an "original" work.

REPORTED JUDICIAL DECISION

[McLachlin C.J.C. (Iacobucci, Major, Bastarache, Binnie, Arbour, LeBel, Deschamps and Fish JJ. concurring):] The reported judicial decisions, when properly understood as a *compilation* of the headnote and the accompanying edited judicial reasons, are "original" works covered by copyright. Copyright protects originality of *form* or expression. A compilation takes existing material and casts it in a different form. The arranger does not have copyright in the individual components. However, the arranger may have copyright in the form represented by the compilation. "It is not the several components that are the subject of copyright, but the over-all arrangement of them which the plaintiff through his industry has produced": *Slumber-Magic Adjustable Bed Co. v. Sleep-King Adjustable Bed Co.* (1984), 3 C.P.R. (3d) 81 (B.C. S.C.), at p. 84; see also *Ladbroke (Football) Ltd. v. William Hill (Football) Ltd.*, [1964] 1 All E.R. 465 (U.K. H.L.), at p. 469.

The reported judicial decisions here at issue meet the test for originality. The authors have arranged the case summary, catchlines, case title, case information (the headnotes) and the judicial reasons in a specific manner. The arrangement of these different components requires the exercise of skill and judgment. The compilation, viewed globally, attracts copyright protection.

This said, the judicial reasons in and of themselves, without the headnotes, are not original works in which the publishers could claim copyright.

RESEARCH

[McLachlin C.J.C. (Iacobucci, Major, Bastarache, Binnie, Arbour, LeBel, Deschamps and Fish JJ. concurring):] The fair dealing exception under s. 29 [of the *Copyright Act*, R.S.C. 1985, c. C-42] is open to those who can show that their dealings with a copyrighted work were for the purpose of research or private study. "Research" must be given a large and liberal interpretation in order to ensure that users' rights are not unduly constrained. I agree with the Court of Appeal that research is not limited to non-commercial or private contexts. The Court of Appeal [2002 CarswellNat 1000] correctly noted, at para. 128, that "[r]esearch for the purpose of advising clients, giving opinions, arguing cases, preparing briefs and factums is nonetheless research". Lawyers carrying on the business of law for profit are conducting research within the meaning of s. 29 of the *Copyright Act*.

TO THE PUBLIC BY TELECOMMUNICATION

[McLachlin C.J.C. (Iacobucci, Major, Bastarache, Binnie, Arbour, LeBel, Deschamps and Fish JJ. concurring):] The fax transmission of a single copy to a single individual is not a communication to the public [within the meaning of s. 3(1)(f) of the *Copyright Act*, R.S.C. 1985, c. C-42]. This said, a series of repeated fax transmissions of the same work to numerous different recipients might constitute communication to the public in infringement of copyright. However, there was no evidence of this type of transmission having occurred in this case.

TOPICAL INDEX

[McLachlin C.J.C. (Iacobucci, Major, Bastarache, Binnie, Arbour, LeBel, Deschamps and Fish JJ. concurring):] The topical index is part of the book *Canada GST Cases*, (1997). It provides a listing of cases with short headings to indicate the main topics covered by the decision and very brief summaries of the decisions. The Federal Court of Appeal [2002 CarswellNat 1000] held that the index was original in that it required skill and effort to compile. I agree. The author of the index had to make an initial decision as to which cases were authorities on GST. This alone is a decision that would require the exercise of skill and judgment. The author also had to decide which headings to include and which cases should fall under which headings. He or she had to distill the essence of the decisions down to a succinct one-phrase summary. All of these tasks require skill and judgment that are sufficient to conclude that the topical index is an "original" work in which copyright subsists.

Termes et locutions cités

AUTORISER

[McLachlin J.C.C. (Iacobucci, Major, Bastarache, Binnie, Arbour, LeBel, Deschamps et Fish, J.J. souscrivant à l'opinion de la juge McLachlin):] « Autoriser » signifie « sanctionner, appuyer ou soutenir » (« *sanction, approve and countenance* ») : *Muzak Corp. c. Composers, Authors and Publishers Association of Canada Ltd.*, [1953] 2 R.C.S. 182, p. 193; *De Tervagne c. Beloeil (Ville)*, [1993] 3 C.F. 227 (1re inst.). Lorsqu'il s'agit de déterminer si une violation du droit d'auteur a été autorisée, il faut attribuer au terme « *countenance* » son sens le plus fort mentionné dans le dictionnaire, soit « approuver, sanctionner, permettre, favoriser, encourager » : voir *The Shorter Oxford English Dictionary* (1993), vol. 1, p. 527. L'autorisation est néanmoins une question de fait qui dépend de la situation propre à chaque espèce et peut s'inférer d'agissements qui ne sont pas des actes directs et positifs, et notamment d'un degré suffisamment élevé d'indifférence : *CBS Inc. c. Ames Records & Tapes Ltd.*, [1981] 2 All E.R. 812 (Div. Chanc.), p. 823 et 824. Toutefois, ce n'est pas autoriser la violation du droit d'auteur que de permettre la simple utilisation d'un appareil susceptible d'être utilisé à cette fin. Les tribunaux doivent présumer que celui qui autorise une activité ne l'autorise que dans les limites de la légalité : *Muzak*, précité. Cette présomption peut être réfutée par la preuve qu'il existait une certaine relation ou un certain degré de contrôle entre l'auteur allégué de l'autorisation et les personnes qui ont violé le droit d'auteur : *Muzak*, précité; *De Tervagne*, précité. Voir également J.S. McKeown, *Fox Canadian Law of Copyright and Industrial Designs* (4e éd. (feuilles mobiles)), p. 21-104 et P.D. Hitchcock, « Home Copying and Authorization » (1983), 67 C.P.R. (2d) 17, p. 29 à 33.

RÉSUMÉ DE JURISPRUDENCE

[McLachlin J.C.C. (Iacobucci, Major, Bastarache, Binnie, Arbour, LeBel, Deschamps et Fish, J.J. souscrivant à l'opinion de la juge McLachlin):] Le résumé des motifs d'un jugement n'est pas que la copie des motifs originaux. Même si le résumé reprend souvent les mêmes termes que les motifs du jugement, le choix des extraits et leur agencement requièrent l'exercice du talent et du jugement.

UTILISATION

[McLachlin J.C.C. (Iacobucci, Major, Bastarache, Binnie, Arbour, LeBel, Deschamps et Fish, J.J. souscrivant à l'opinion de la juge McLachlin):] Cela soulève une question préliminaire : le Barreau est-il tenu de prouver que chacun des usagers utilise de manière équitable les ouvrages mis à sa disposition, ou peut-il s'appuyer sur sa pratique générale pour établir le caractère équitable de l'utilisation? Je conclus que ce dernier élément suffit. L'article 29 de la *Loi sur le droit d'auteur* [L.R.C. 1985, c. C-42] dispose que « [l]'utilisation équitable d'une oeuvre ou de tout autre objet du droit d'auteur aux fins d'étude privée ou de recherche ne constitue pas une violation du droit d'auteur ». Les termes employés sont généraux. « Utilisation » ne renvoie pas à un acte individuel, mais bien à une pratique ou à un système. Cela est compatible avec l'objet de l'exception au titre de l'utilisation équitable, qui est de faire en sorte que la faculté des utilisateurs d'utiliser et de diffuser des oeuvres protégées ne soit pas indûment limitée. La personne ou l'établissement qui invoque l'exception prévue à l'art. 29 doit seulement prouver qu'il a utilisé l'oeuvre protégée aux fins de recherche ou d'étude privée et que cette utilisation

était équitable. Il peut le faire en établissant soit que ses propres pratiques et politiques étaient axées sur la recherche et équitables, soit que toutes les utilisations individuelles des ouvrages étaient de fait axées sur la recherche et équitable.

UTILISATION ÉQUITABLE

[McLachlin J.C.C. (Iacobucci, Major, Bastarache, Binnie, Arbour, LeBel, Deschamps et Fish, J.J. souscrivant à l'opinion de la juge McLachlin):] Le juge Linden, de la Cour d'appel [2002 CarswellNat 2841], a reconnu l'absence d'un critère établi permettant de dire qu'une utilisation est équitable ou non, mais il a énuméré des facteurs pouvant être pris en compte pour en décider. S'inspirant de *Hubbard*, précité, ainsi que de la doctrine américaine de l'utilisation équitable, il a énuméré les facteurs suivants : (1) le but de l'utilisation; (2) la nature de l'utilisation; (3) l'ampleur de l'utilisation; (4) les solutions de rechange à l'utilisation; (5) la nature de l'oeuvre; (6) l'effet de l'utilisation sur l'oeuvre. Bien que ces facteurs ne soient pas pertinents dans tous les cas, ils offrent un cadre d'analyse utile pour statuer sur le caractère équitable d'une utilisation dans des affaires ultérieures.

SOMMAIRES

[McLachlin J.C.C. (Iacobucci, Major, Bastarache, Binnie, Arbour, LeBel, Deschamps et Fish, J.J. souscrivant à l'opinion de la juge McLachlin):] La Cour d'appel fédérale [2002 CarswellNat 2841] a statué que les « sommaires », y compris le résumé de l'affaire, les mots clés, l'exposé de l'affaire, l'intitulé répertorié et les autres renseignements relatifs aux motifs du jugement, n'étaient pas que de simples copies et constituaient donc des oeuvres « originales » conférant un droit d'auteur. Elle a estimé que les sommaires étaient davantage qu'une version abrégée des motifs, qu'ils comportaient des caractéristiques composées de façon indépendante. Comme le juge Linden l'a expliqué, au par. 73, les auteurs des sommaires auraient pu choisir de rédiger des résumés « longs ou courts, techniques ou simples, ternes ou remarquables, bien écrits ou confus; leur arrangement et leur présentation auraient pu varier grandement ».

Même si un sommaire s'inspire en grande partie du jugement qu'il résume et auquel il renvoie, il ne s'agit manifestement pas d'une copie identique des motifs. L'auteur doit choisir des éléments précis de la décision et il peut les présenter de nombreuses façons différentes. Ces choix supposent l'exercice du talent et du jugement. Le rédacteur doit faire appel à ses connaissances juridiques et à l'aptitude qu'il a acquise pour cerner la *ratio decidendi* de la décision. Il doit également faire appel à sa faculté de discernement pour décider quelles parties du jugement doivent figurer dans le sommaire. Il ne s'agit pas d'une entreprise purement mécanique. Un sommaire constitue donc une oeuvre « originale » conférant le droit d'auteur.

ORIGINALE

[McLachlin J.C.C. (Iacobucci, Major, Bastarache, Binnie, Arbour, LeBel, Deschamps et Fish, J.J. souscrivant à l'opinion de la juge McLachlin):] Pour être « originale » au sens de la *Loi sur le droit d'auteur* [L.R.C. 1985, c. C-42], une oeuvre doit être davantage qu'une copie d'une autre oeuvre. Point n'est besoin toutefois qu'elle soit créative, c'est-à-dire novatrice ou unique. L'élément essentiel à la protection de l'expression d'une idée par le droit d'auteur est l'exercice du talent et du jugement. J'entends par talent le recours aux connaissances personnelles, à une aptitude acquise ou à une compétence issue de l'expérience pour produire l'oeuvre. J'entends par jugement la faculté de discernement ou la capacité de se faire une opinion ou de procéder à une évaluation en comparant différentes options possibles pour produire l'oeuvre. Cet exercice du talent et du jugement implique nécessairement un effort intellectuel. L'exercice du talent et du jugement que requiert la production de l'oeuvre ne doit pas être négligeable au point de pouvoir être assimilé à une entreprise purement mécanique. Par exemple, tout talent ou jugement que pourrait requérir la seule modification de la police de caractères d'une oeuvre pour en créer une « autre » serait trop négligeable pour justifier la protection que le droit d'auteur accorde à une oeuvre « originale ».

DÉCISIONS JUDICIAIRES PUBLIÉES

[McLachlin J.C.C. (Iacobucci, Major, Bastarache, Binnie, Arbour, LeBel, Deschamps et Fish, J.J. souscrivant à l'opinion de la juge McLachlin):] Les décisions judiciaires publiées, considérées à juste titre comme une *compilation* du sommaire et des motifs judiciaires révisés qui l'accompagnent, sont des oeuvres « originales » protégées par le droit d'auteur. Celui-

ci protège l'originalité de la *forme* ou de l'expression. Une compilation consiste dans la présentation, sous une forme différente, d'éléments existants. Celui qui l'effectue n'a aucun droit d'auteur sur les composantes individuelles. Cependant, il peut détenir un droit d'auteur sur la forme que prend la compilation. [TRADUCTION] « Ce ne sont pas les divers éléments qui sont visés par le droit d'auteur, mais bien leur agencement global qui est le fruit du travail du demandeur » : *Slumber-Magic Adjustable Bed Co. c. Sleep-King Adjustable Bed Co.* (1984), 3 C.P.R. (3d) 81 (C.S. C.-B.), p. 84; voir également *Ladbroke (Football) Ltd. c. William Hill (Football) Ltd.*, [1964] 1 All E.R. 465 (H.L.), p. 469.

Les décisions judiciaires publiées qui sont visées en l'espèce satisfont au critère d'originalité. Les auteurs ont agencé de façon particulière le résumé jurisprudentiel, les mots clés, l'intitulé répertorié, les renseignements relatifs aux motifs du jugement (les sommaires) et les motifs de la décision. L'agencement de ces différents éléments nécessite l'exercice du talent et du jugement. Considérée globalement, la compilation confère un droit d'auteur.

Cela dit, les motifs de la décision en eux-mêmes, sans les sommaires, ne constituent pas des oeuvres originales sur lesquelles les éditeurs peuvent revendiquer un droit d'auteur.

RECHERCHE

[McLachlin J.C.C. (Iacobucci, Major, Bastarache, Binnie, Arbour, LeBel, Deschamps et Fish, J.J. souscrivant à l'opinion de la juge McLachlin):] Toute personne qui est en mesure de prouver qu'elle a utilisé l'oeuvre protégée par le droit d'auteur aux fins de recherche ou d'étude privée peut se prévaloir de l'exception créée par l'art. 29 [*Loi sur le droit d'auteur*, L.R.C. 1985, c. C-42]. Il faut interpréter le mot « recherche » de manière large afin que les droits des utilisateurs ne soient pas indûment restreints. J'estime, comme la Cour d'appel, que la recherche ne se limite pas à celle effectuée dans un contexte non commercial ou privé. La Cour d'appel [v. 2002 CarswellNat 2841] a signalé à juste titre, au par. 128, que « [l]a recherche visant à conseiller des clients, donner des avis, plaider des causes et préparer des mémoires et des factums reste de la recherche ». L'avocat qui exerce le droit dans un but lucratif effectue de la recherche au sens de l'art. 29 de la *Loi sur le droit d'auteur*.

AU PUBLIC, PAR TÉLÉCOMMUNICATION

[McLachlin J.C.C. (Iacobucci, Major, Bastarache, Binnie, Arbour, LeBel, Deschamps et Fish, J.J. souscrivant à l'opinion de la juge McLachlin):] Transmettre une seule copie à une seule personne par télécopieur n'équivaut pas à communiquer l'oeuvre au public [au sens de l'art. 3(1)f) de la *Loi sur le droit d'auteur*, L.R.C. 1985, c. C-42]. Cela dit, la transmission répétée d'une copie d'une même oeuvre à de nombreux destinataires pourrait constituer une communication au public et violer le droit d'auteur. Toutefois, aucune preuve n'a établi que ce genre de transmission aurait eu lieu en l'espèce.

INDEX ANALYTIQUE

[McLachlin J.C.C. (Iacobucci, Major, Bastarache, Binnie, Arbour, LeBel, Deschamps et Fish, J.J. souscrivant à l'opinion de la juge McLachlin):] L'index analytique fait partie de l'ouvrage *Canada GST Cases* (1997). Il fournit une liste de décisions accompagnées de courtes rubriques indiquant les principaux sujets abordés et d'un très bref résumé. La Cour d'appel fédérale [2002 CarswellNat 2841] a statué qu'il était original en ce que sa compilation exigeait habileté et effort. C'est également mon avis. L'auteur de l'index a dû faire un tri initial pour repérer les affaires décisives en matière de TPS. À lui seul, ce tri appelle l'exercice du talent et du jugement. L'auteur a dû également décider des rubriques et choisir les décisions qui figureraient sous chacune d'elles. Il lui a fallu dégager l'essence de chacune des décisions et l'exprimer dans une phrase succincte. Toutes ces opérations nécessitent un talent et un jugement suffisamment importants pour qu'on puisse conclure que l'index analytique est une oeuvre « originale » conférant le droit d'auteur.

[APPEAL and CROSS-APPEAL from judgment reported at \(2002\), 2002 FCA 187, 2002 CarswellNat 1000, 18 C.P.R. \(4th\) 161, 212 D.L.R. \(4th\) 385, 289 N.R. 1, 2002 CAF 187, 2002 CarswellNat 2841, \[2002\] 4 F.C. 213, 224 F.T.R. 111 \(note\) \(Fed. C.A.\), allowing appeal in part and dismissing counterclaim from judgment declaring that copyright did not subsist in plaintiffs' reported judicial decisions, headnotes, case summary, and topical index.](#)

POURVOI et POURVOI INCIDENT à l'encontre de l'arrêt publié à (2002), 2002 FCA 187, 2002 CarswellNat 1000, 18 C.P.R. (4th) 161, 212 D.L.R. (4th) 385, 289 N.R. 1, 2002 CAF 187, 2002 CarswellNat 2841, [2002] 4 C.F. 213, 224 F.T.R. 111 (note) (C.A. Féd.), qui a accueilli le pourvoi en partie et a rejeté le pourvoi incident à l'encontre du jugement qui avait déclaré que les décisions judiciaires publiées, les sommaires, les résumés de jurisprudence et les index analytiques ne conféraient aucun droit d'auteur aux demandeurs.

The Chief Justice:

I. Introduction -- The Issues To Be Determined

1 The appellant, the Law Society of Upper Canada, is a statutory non-profit corporation that has regulated the legal profession in Ontario since 1822. Since 1845, the Law Society has maintained and operated the Great Library at Osgoode Hall in Toronto, a reference and research library with one of the largest collections of legal materials in Canada. The Great Library provides a request-based photocopy service (the "custom photocopy service") for Law Society members, the judiciary and other authorized researchers. Under the custom photocopy service, legal materials are reproduced by Great Library staff and delivered in person, by mail or by facsimile transmission to requesters. The Law Society also maintains self-service photocopiers in the Great Library for use by its patrons.

2 The respondents, CCH Canadian Ltd., Thomson Canada Ltd. and Canada Law Book Inc., publish law reports and other legal materials. In 1993, the respondent publishers commenced copyright infringement actions against the Law Society, seeking a declaration of subsistence and ownership of copyright in eleven specific works and a declaration that the Law Society had infringed copyright when the Great Library reproduced a copy of each of the works. The publishers also sought a permanent injunction prohibiting the Law Society from reproducing these eleven works as well as any other works that they published.

3 The Law Society denied liability and counterclaimed for a declaration that copyright is not infringed when a single copy of a reported decision, case summary, statute, regulation or a limited selection of text from a treatise is made by the Great Library staff or one of its patrons on a self-service photocopier for the purpose of research.

4 The key question that must be answered in this appeal is whether the Law Society has breached copyright by either (1) providing the custom photocopy service in which single copies of the publishers' works are reproduced and sent to patrons upon their request or by (2) maintaining self-service photocopiers and copies of the publishers' works in the Great Library for use by its patrons. To answer this question, the Court must address the following sub-issues:

- (1) Are the publishers' materials "original works" protected by copyright?
- (2) Did the Great Library authorize copyright infringement by maintaining self-service photocopiers and copies of the publishers' works for its patrons' use?
- (3) Were the Law Society's dealings with the publishers' works "fair dealing[s]" under s. 29 of the *Copyright Act*, R.S.C. 1985, c. C-42, as amended?
- (4) Did Canada Law Book consent to have its works reproduced by the Great Library?

5 The publishers have filed a cross-appeal in which they submit that, in addition to infringing copyright by reproducing copies of their works, the Law Society infringed copyright both by faxing and by selling copies of the publishers' copyrighted works through its custom photocopy service. The publishers also contend that the Great Library does not qualify for the library exemption under the *Copyright Act* and, finally, that they are entitled to an injunction to the extent that the Law Society has been found to infringe any one or more of their copyrighted works. The four sub-issues that the Court must address on this cross-appeal are:

- (1) Did the Law Society's fax transmissions of the publishers' works constitute communications "to the public" within s. 3(1)(f) of the *Copyright Act* so as to constitute copyright infringement?

(2) Did the Law Society infringe copyright by selling copies of the publishers' works contrary to s. 27(2) of the *Copyright Act*?

(3) Does the Law Society qualify for an exemption as a "library, archive or museum" under ss. 2 and 30.2(1) of the *Copyright Act*?

(4) To the extent that the Law Society has been found to infringe any one or more of the publishers' copyrighted works, are the publishers entitled to a permanent injunction under s. 34(1) of the *Copyright Act*?

6 With respect to the main appeal, I conclude that the Law Society did not infringe copyright by providing single copies of the respondent publishers' works to its members through the custom photocopy service. Although the works in question were "original" and thus covered by copyright, the Law Society's dealings with the works were for the purpose of research and were fair dealings within s. 29 of the *Copyright Act*. I also find that the Law Society did not authorize infringement by maintaining self-service photocopiers in the Great Library for use by its patrons. I would therefore allow the appeal.

7 On the cross-appeal, I conclude that there was no secondary infringement by the Law Society; the fax transmissions were not communications to the public and the Law Society did not sell copies of the publishers' works. In light of my finding on appeal that the Law Society's dealings with the publishers' works were fair, it is not necessary to decide whether the Great Library qualifies for the library exemption. This said, I would conclude that the Great Library does indeed qualify for this exemption. Finally, in light of my conclusion that there has been no copyright infringement, it is not necessary to issue an injunction in this case. I would dismiss the cross-appeal.

II. Analysis on Appeal

8 Copyright law in Canada protects a wide range of works including every original literary, dramatic, musical and artistic work, computer programs, translations and compilations of works: see s. 5 and ss. 2 and 2.1 of the *Copyright Act*. Copyright law protects the expression of ideas in these works; it does not protect ideas in and of themselves. Thorson P. explained it thus in *Moreau v. St. Vincent*, [1950] Ex. C.R. 198 (Can. Ex. Ct.), at p. 203:

It is, I think, an elementary principle of copyright law that an author has no copyright in ideas but only in his expression of them. The law of copyright does not give him any monopoly in the use of the ideas with which he deals or any property in them, even if they are original. His copyright is confined to the literary work in which he has expressed them. The ideas are public property, the literary work is his own.

It flows from the fact that copyright only protects the expression of ideas that a work must also be in a fixed material form to attract copyright protection: see s. 2 definitions of "dramatic work" and "computer program" and, more generally, *Goldner v. Canadian Broadcasting Corp.* (1972), 7 C.P.R. (2d) 158 (Fed. T.D.), at p. 162; *Grignon v. Roussel* (1991), 38 C.P.R. (3d) 4 (Fed. T.D.), at p. 7.

9 In Canada, copyright is a creature of statute and the rights and remedies provided by the *Copyright Act* are exhaustive: see *Galerie d'art du Petit Champlain inc. c. Théberge*, [2002] 2 S.C.R. 336, 2002 SCC 34 (S.C.C.), at para. 5; *Bishop v. Stevens*, [1990] 2 S.C.R. 467 (S.C.C.), at p. 477; *Compo Co. v. Blue Crest Music Inc.* (1979), [1980] 1 S.C.R. 357 (S.C.C.), at p. 373. In interpreting the scope of the *Copyright Act's* rights and remedies, courts should apply the modern approach to statutory interpretation whereby "the words of an Act are to be read in their entire context and in their grammatical and ordinary sense harmoniously with the scheme of the Act, the object of the Act, and the intention of Parliament": *Bell ExpressVu Ltd. Partnership v. Rex*, [2002] 2 S.C.R. 559, 2002 SCC 42 (S.C.C.), at para. 26, citing E.A. Driedger, *Construction of Statutes* (2nd ed. 1983), at p. 87.

10 Binnie J. recently explained in *Théberge*, *supra*, at paras. 30-31, that the *Copyright Act* has dual objectives:

The *Copyright Act* is usually presented as a balance between promoting the public interest in the encouragement and dissemination of works of the arts and intellect and obtaining a just reward for the creator...

The proper balance among these and other public policy objectives lies not only in recognizing the creator's rights but in giving due weight to their limited nature.

In interpreting the *Copyright Act*, courts should strive to maintain an appropriate balance between these two goals.

11 Canada's *Copyright Act* sets out the rights and obligations of both copyright owners and users. Part I of the Act specifies the scope of a creator's copyright and moral rights in works. For example, s. 3 of the Act specifies that only copyright owners have the right to copy or to authorize the copying of their works:

3. (1) For the purposes of this Act, "copyright", in relation to a work, means the sole right to produce or reproduce the work or any substantial part thereof in any material form whatever, to perform the work or any substantial part thereof in public or, if the work is unpublished, to publish the work or any substantial part thereof...

.....

and to authorize any such acts.

12 Part III of the *Copyright Act* deals with the infringement of copyright and exceptions to infringement. Section 27(1) states generally that "[i]t is an infringement of copyright for any person to do, without the consent of the owner of the copyright, anything that by this Act only the owner of the copyright has the right to do". More specific examples of how copyright is infringed are set out in s. 27(2) of the Act. The exceptions to copyright infringement, perhaps more properly understood as users' rights, are set out in ss. 29 and 30 of the Act. The fair dealing exceptions to copyright are set out in ss. 29-29.2. In general terms, those who deal fairly with a work for the purpose of research, private study, criticism, review or news reporting, do not infringe copyright. Educational institutions, libraries, archives and museums are specifically exempted from copyright infringement in certain circumstances: see ss. 29.4-30 (educational institutions), and ss. 30.1-30.5. Part IV of the *Copyright Act* specifies the remedies that may be awarded in cases where copyright has been infringed. Copyright owners may be entitled to any number of different remedies such as damages and injunctions, among others.

13 This case requires this Court to interpret the scope of both owners' and users' rights under the *Copyright Act*, including what qualifies for copyright protection, what is required to find that the copyright has been infringed through authorization and the fair dealing exceptions under the Act.

(1) Are the Publishers' Materials "Original Works" Covered by Copyright?

(a) The Law

14 Section 5 of the *Copyright Act* states that, in Canada, copyright shall subsist "in every *original* literary, dramatic, musical and artistic work" (emphasis added). Although originality sets the boundaries of copyright law, it is not defined in the *Copyright Act*. Section 2 of the *Copyright Act* defines "every original literary ... work" as including "every original production in the literary ... domain, whatever may be the mode or form of its expression". Since copyright protects only the expression or form of ideas, "the originality requirement must apply to the expressive element of the work and not the idea": S. Handa, *Copyright Law in Canada* (2002), at p. 209.

15 There are competing views on the meaning of "original" in copyright law. Some courts have found that a work that originates from an author and is more than a mere copy of a work is sufficient to ground copyright. See, for example, *University of London Press v. University Tutorial Press Ltd.*, [1916] 2 Ch. 601 (Eng. Ch. Div.); *U & R Tax Services Ltd. v. H & R Block Canada Inc.* (1995), 62 C.P.R. (3d) 257 (Fed. T.D.). This approach is consistent with the "sweat of the brow" or "industriousness" standard of originality, which is premised on a natural rights or Lockean theory of "just desserts", namely that an author deserves to have his or her efforts in producing a work rewarded. Other courts have required that a work must be creative to be "original" and thus protected by copyright. See, for example, *Feist Publications Inc. v. Rural Telephone Service Co.* (1991), 499 U.S. 340 (U.S. Kan.); *Tele-Direct (Publications) Inc. v. American Business Information Inc.* (1997), [1998] 2 F.C. 22 (Fed. C.A.). This approach is also consistent with a natural rights theory of property law; however it is less absolute in that only those works that

are the product of creativity will be rewarded with copyright protection. It has been suggested that the "creativity" approach to originality helps ensure that copyright protection only extends to the expression of ideas as opposed to the underlying ideas or facts. See *Feist Publications Inc.*, *supra*, at p. 353.

16 I conclude that the correct position falls between these extremes. For a work to be "original" within the meaning of the *Copyright Act*, it must be more than a mere copy of another work. At the same time, it need not be creative, in the sense of being novel or unique. What is required to attract copyright protection in the expression of an idea is an exercise of skill and judgment. By skill, I mean the use of one's knowledge, developed aptitude or practised ability in producing the work. By judgment, I mean the use of one's capacity for discernment or ability to form an opinion or evaluation by comparing different possible options in producing the work. This exercise of skill and judgment will necessarily involve intellectual effort. The exercise of skill and judgment required to produce the work must not be so trivial that it could be characterized as a purely mechanical exercise. For example, any skill and judgment that might be involved in simply changing the font of a work to produce "another" work would be too trivial to merit copyright protection as an "original" work.

17 In reaching this conclusion, I have had regard to: (1) the plain meaning of "original"; (2) the history of copyright law; (3) recent jurisprudence; (4) the purpose of the *Copyright Act*; and (5) that this constitutes a workable yet fair standard.

(i) *The Plain Meaning of "Original"*

18 The plain meaning of the word "original" suggests at least some intellectual effort, as is necessarily involved in the exercise of skill and judgment. The *Concise Oxford Dictionary* (7th ed. 1982), at p. 720, defines "original" as follows:

1. *a* existing from the first, primitive, innate, initial, earliest; ... 2. that has served as pattern, of which copy or translation has been made, not derivative or dependant, first-hand, not imitative, novel in character or style, inventive, creative, thinking or acting for oneself.

"Original"'s plain meaning implies not just that something is not a copy. It includes, if not creativity *per se*, at least some sort of intellectual effort. As Professor Gervais has noted, "[w]hen used to mean simply that the work must originate from the author, originality is eviscerated of its core meaning. It becomes a synonym of 'originated,' and fails to reflect the ordinary sense of the word": D.J. Gervais, "*Feist Goes Global: A Comparative Analysis of the Notion of Originality in Copyright Law*" (2002), 49 *J. Copyright Soc'y U.S.A.* 949, at p. 961.

(ii) *History of Copyright*

19 The idea of "intellectual creation" was implicit in the notion of literary or artistic work under the *Berne Convention for the Protection of Literary and Artistic Works* (1886), to which Canada adhered in 1923, and which served as the precursor to Canada's first *Copyright Act*, adopted in 1924. See S. Ricketson, *The Berne Convention for the Protection of Literary and Artistic Works: 1886-1986* (1987), at p. 900. Professor Ricketson has indicated that in adopting a sweat of the brow or industriousness approach to deciding what is original, common law countries such as England have "depart[ed] from the spirit, if not the letter, of the [Berne] Convention" since works that have taken time, labour or money to produce but are not truly artistic or literary intellectual creations are accorded copyright protection: Ricketson, *supra*, at p. 901.

20 In the international context, France and other continental civilian jurisdictions require more than mere industriousness to find that a work is original. "Under the French law, originality means both the intellectual contribution of the author and the novel nature of the work as compared with existing works": Handa, *supra*, at p. 211. This understanding of originality is reinforced by the expression "*le droit d'auteur*" - literally the "*author's right*" -- the term used in the French title of the *Copyright Act*. The author must contribute something intellectual to the work, namely skill and judgment, if it is to be considered original.

(iii) *Recent Jurisprudence*

21 Although many Canadian courts have adopted a rather low standard of originality, i.e., that of industriousness, more recently, some courts have begun to question whether this standard is appropriate. For example, the Federal Court of Appeal in

Tele-Direct (Publications) Inc., *supra*, held, at para. 29, that those cases which had adopted the sweat of the brow approach to originality should not be interpreted as concluding that labour, in and of itself, could ground a finding of originality. As Décary J.A. explained: "If they did, I suggest that their approach was wrong and is irreconcilable with the standards of intellect and creativity that were expressly set out in NAFTA and endorsed in the 1993 amendments to the *Copyright Act* and that were already recognized in Anglo-Canadian law." See also *Édutile Inc. v. Automobile Protection Assn. (APA)*, [2000] 4 F.C. 195 (Fed. C.A.), at para. 8, adopting this passage.

22 The United States Supreme Court explicitly rejected the "sweat of the brow" approach to originality in *Feist Publications Inc.*, *supra*. In so doing, O'Connor J. explained at p. 353 that, in her view, the "sweat of the brow" approach was not consistent with the underlying tenets of copyright law:

The "sweat of the brow" doctrine had numerous flaws, the most glaring being that it extended copyright protection in a compilation beyond selection and arrangement -- the compiler's original contributions -- to the facts themselves. Under the doctrine, the only defense to infringement was independent creation. A subsequent compiler was "not entitled to take one word of information previously published," but rather had to "independently wor[k] out the matter for himself, so as to arrive at the same result from the same common sources of information."... "Sweat of the brow" courts thereby eschewed the most fundamental axiom of copyright law - that no one may copyright facts or ideas.

As this Court recognized in *Compo Co.*, *supra*, at p. 367, U.S. copyright cases may not be easily transferable to Canada given the key differences in the copyright concepts in Canadian and American copyright legislation. This said, in Canada, as in the United States, copyright protection does not extend to facts or ideas but is limited to the expression of ideas. As such, O'Connor's J. concerns about the "sweat of the brow" doctrine's improper extension of copyright over facts also resonate in Canada. I would not, however, go as far as O'Connor J. in requiring that a work possess a minimal degree of creativity to be considered original. See *Feist*, *supra*, at pp. 345 and 358.

(iv) Purpose of the Copyright Act

23 As mentioned, in *Galerie d'art du Petit Champlain inc. c. Théberge*, *supra*, this Court stated that the purpose of copyright law was to balance the public interest in promoting the encouragement and dissemination of works of the arts and intellect and obtaining a just reward for the creator. When courts adopt a standard of originality requiring only that something be more than a mere copy or that someone simply show industriousness to ground copyright in a work, they tip the scale in favour of the author's or creator's rights, at the loss of society's interest in maintaining a robust public domain that could help foster future creative innovation. See J. Litman, "The Public Domain" (1990), 39 *Emory L.J.* 965, at p. 969, and C.J. Craig, "Locke, Labour and Limiting the Author's Right: A Warning against a Lockean Approach to Copyright Law" (2002), 28 *Queen's L.J.* 1. By way of contrast, when an author must exercise skill and judgment to ground originality in a work, there is a safeguard against the author being overcompensated for his or her work. This helps ensure that there is room for the public domain to flourish as others are able to produce new works by building on the ideas and information contained in the works of others.

(v) Workable, Yet Fair Standard

24 Requiring that an original work be the product of an exercise of skill and judgment is a workable yet fair standard. The "sweat of the brow" approach to originality is too low a standard. It shifts the balance of copyright protection too far in favour of the owner's rights, and fails to allow copyright to protect the public's interest in maximizing the production and dissemination of intellectual works. On the other hand, the creativity standard of originality is too high. A creativity standard implies that something must be novel or non-obvious - concepts more properly associated with patent law than copyright law. By way of contrast, a standard requiring the exercise of skill and judgment in the production of a work avoids these difficulties and provides a workable and appropriate standard for copyright protection that is consistent with the policy objectives of the *Copyright Act*.

(vi) Conclusion

25 For these reasons, I conclude that an "original" work under the *Copyright Act* is one that originates from an author and is not copied from another work. That alone, however, is not sufficient to find that something is original. In addition, an original

work must be the product of an author's exercise of skill and judgment. The exercise of skill and judgment required to produce the work must not be so trivial that it could be characterized as a purely mechanical exercise. While creative works will by definition be "original" and covered by copyright, creativity is not required to make a work "original".

(b) Application of the Law to these Facts

26 At trial, the respondent publishers claimed copyright in eleven works: three reported judicial decisions; the three headnotes preceding these decisions; the Annotated *Martin's Ontario Criminal Practice 1999*; a case summary; a topical index; the textbook *Economic Negligence* (1989); and the monograph "Dental Evidence", being chapter 13 in *Forensic Evidence in Canada* (1991). Gibson J. held that the publishers' works should be judged against a standard of intellect and creativity in order to determine if they were original. Based on this standard of originality, the trial judge found that the publishers only had copyright in the Annotated *Criminal Practice*, the textbook and the monograph. He concluded that the remaining eight works were not original and, therefore, were not covered by copyright ((1999), [2000] 2 F.C. 451 (Fed. T.D.)).

27 On appeal, the Law Society did not challenge the trial judge's findings with respect to the three works in which he found copyright did exist, with the exception of questioning whether the monograph constituted a "work" within the meaning of the *Copyright Act*. The Federal Court of Appeal adopted the "sweat of the brow" approach to originality and found that if a work was more than a mere copy, it would be original. On this basis, Linden J.A., writing for the majority, held that all of the remaining works were original and therefore covered by copyright ([2002] 4 F.C. 213 (Fed. C.A.)). The Law Society appeals, contending that the headnotes, case summary, topical index and reported judicial decisions are not "original" within the meaning of the *Copyright Act* and, therefore, are not covered by copyright.

28 As stated, in order to be original, a work must have originated from the author, not be copied, and must be the product of the exercise of skill and judgment that is more than trivial. Applying this test, all of the works in question are original and therefore covered by copyright.

(i) Headnotes

29 The Federal Court of Appeal held that "headnotes", defined as including the summary of the case, catchlines, statement of the case, case title and case information, are more than mere copies and hence "original" works in which copyright subsists. It found that the headnotes are more than simply an abridged version of the reasons; they consist of independently composed features. As Linden J.A. explained, at para. 73, the authors of the headnotes could have chosen to make the summaries "long or short, technical or simple, dull or dramatic, well written or confusing; the organization and presentation might have varied greatly".

30 Although headnotes are inspired in large part by the judgment which they summarize and refer to, they are clearly not an identical copy of the reasons. The authors must select specific elements of the decision and can arrange them in numerous different ways. Making these decisions requires the exercise of skill and judgment. The authors must use their knowledge about the law and developed ability to determine legal *ratios* to produce the headnotes. They must also use their capacity for discernment to decide which parts of the judgment warrant inclusion in the headnotes. This process is more than just a mechanical exercise. Thus the headnotes constitute "original" works in which copyright subsists.

(ii) Case Summary

31 For substantially the same reasons as given for headnotes, the case summary is also covered by copyright. A summary of judicial reasons is not simply a copy of the original reasons. Even if the summary often contains the same language as the judicial reasons, the act of choosing which portions to extract and how to arrange them in the summary requires an exercise of skill and judgment.

(iii) Topical Index

32 The topical index is part of the book *Canada GST Cases*, (1997). It provides a listing of cases with short headings to indicate the main topics covered by the decision and very brief summaries of the decisions. The Federal Court of Appeal held that the index was original in that it required skill and effort to compile. I agree. The author of the index had to make an initial decision as to which cases were authorities on GST. This alone is a decision that would require the exercise of skill and judgment. The author also had to decide which headings to include and which cases should fall under which headings. He or she had to distill the essence of the decisions down to a succinct one-phrase summary. All of these tasks require skill and judgment that are sufficient to conclude that the topical index is an "original" work in which copyright subsists.

(iv) Reported Judicial Decisions

33 The reported judicial decisions, when properly understood as a *compilation* of the headnote and the accompanying edited judicial reasons, are "original" works covered by copyright. Copyright protects originality of *form* or expression. A compilation takes existing material and casts it in a different form. The arranger does not have copyright in the individual components. However, the arranger may have copyright in the form represented by the compilation. "It is not the several components that are the subject of copyright, but the over-all arrangement of them which the plaintiff through his industry has produced": *Slumber-Magic Adjustable Bed Co. v. Sleep-King Adjustable Bed Co.* (1984), 3 C.P.R. (3d) 81 (B.C. S.C.), at p. 84; see also *Ladbroke (Football) Ltd. v. William Hill (Football) Ltd.*, [1964] 1 All E.R. 465 (U.K. H.L.), at p. 469.

34 The reported judicial decisions here at issue meet the test for originality. The authors have arranged the case summary, catchlines, case title, case information (the headnotes) and the judicial reasons in a specific manner. The arrangement of these different components requires the exercise of skill and judgment. The compilation, viewed globally, attracts copyright protection.

35 This said, the judicial reasons in and of themselves, without the headnotes, are not original works in which the publishers could claim copyright. The changes made to judicial reasons are relatively trivial; the publishers add only basic factual information about the date of the judgment, the court and the panel hearing the case, counsel for each party, lists of cases, statutes and parallel citations. The publishers also correct minor grammatical errors and spelling mistakes. Any skill and judgment that might be involved in making these minor changes and additions to the judicial reasons are too trivial to warrant copyright protection. The changes and additions are more properly characterized as a mere mechanical exercise. As such, the reported reasons, when disentangled from the rest of the compilation - namely the headnote - are *not* covered by copyright. It would not be copyright infringement for someone to reproduce only the judicial reasons.

36 In summary, the headnotes, case summary, topical index and compilation of reported judicial decisions are all works that have originated from their authors and are not mere copies. They are the product of the exercise of skill and judgment that is not trivial. As such, they are all "original" works in which copyright subsists. The appeal of these findings should be dismissed.

(2) Authorization: The Self-Service Photocopiers

(a) The Law

37 Under s. 27(1) of the *Copyright Act*, it is an infringement of copyright for anyone to do anything that the Act only allows owners to do, including authorizing the exercise of his or her own rights. It does not infringe copyright to authorize a person to do something that would not constitute copyright infringement. See *C.A.P.A.C. v. CTV Television Network*, [1968] S.C.R. 676 (S.C.C.), at p. 680. The publishers argue that the Law Society is liable for breach of copyright under this section because it implicitly authorized patrons of the Great Library to copy works in breach of the *Copyright Act*.

38 "Authorize" means to "sanction, approve and countenance": *Muzak Corp. v. Composers, Authors & Publishers Assn. (Canada)*, [1953] 2 S.C.R. 182 (S.C.C.), at p. 193; *de Tervagne v. Beloeil (Town)*, [1993] 3 F.C. 227 (Fed. T.D.). Countenance in the context of authorizing copyright infringement must be understood in its strongest dictionary meaning, namely, "give approval to, sanction, permit, favour, encourage": see *The New Shorter Oxford English Dictionary* (1993), vol. 1, at p. 526. Authorization is a question of fact that depends on the circumstances of each particular case and can be inferred from acts that

are less than direct and positive, including a sufficient degree of indifference: *C.B.S. Inc. v. Ames Records & Tapes*, [1981] 2 All E.R. 812 (Eng. Ch. Div.), at pp. 823-24. However, a person does not authorize infringement by authorizing the mere use of equipment that could be used to infringe copyright. Courts should presume that a person who authorizes an activity does so only so far as it is in accordance with the law: *Muzak Corp.*, *supra*. This presumption may be rebutted if it is shown that a certain relationship or degree of control existed between the alleged authorizer and the persons who committed the copyright infringement: *Muzak Corp.*, *supra*; *de Tervagne*, *supra*: see also, J.S. McKeown, *Fox Canadian Law of Copyright and Industrial Designs*, 4th ed. (looseleaf), at p. 21-104 and P.D. Hitchcock, "Home Copying and Authorization" (1983), 67 C.P.R. (2d) 17, at pp. 29-33.

(b) *Application of the Law to these Facts*

39 For several decades, the Law Society has maintained self-service photocopiers for the use of its patrons in the Great Library. The patrons' use of the machines is not monitored directly. Since the mid-1980s, the Law Society has posted the following notice above each machine:

The copyright law of Canada governs the making of photocopies or other reproductions of copyright material. Certain copying may be an infringement of the copyright law. This library is not responsible for infringing copies made by users of these machines.

At trial, the Law Society applied for a declaration that it did not authorize copyright infringement by providing self-service photocopiers for patrons of the Great Library. No evidence was tendered that the photocopiers had been used in an infringing manner.

40 The trial judge declined to deal with this issue, in part because of the limited nature of the evidence on this question. The Federal Court of Appeal, relying in part on the Australian High Court decision in *Moorehouse v. University of New South Wales*, [1976] R.P.C. 151 (Australia H.C.), concluded that the Law Society implicitly sanctioned, approved or countenanced copyright infringement of the publishers' works by failing to control copying and instead merely posting a notice indicating that the Law Society was not responsible for infringing copies made by the machine's users.

41 With respect, I do not agree that this amounted to authorizing breach of copyright. *Moorhouse*, *supra*, is inconsistent with previous Canadian and British approaches to this issue. See D. Vaver, *Copyright Law* (2000), at p. 27, and McKeown, *supra*, at p. 21-108. In my view, the *Moorhouse* approach to authorization shifts the balance in copyright too far in favour of the owner's rights and unnecessarily interferes with the proper use of copyrighted works for the good of society as a whole.

42 Applying the criteria from *Muzak Corp.*, *supra*, and *de Tervagne*, *supra*, I conclude that the Law Society's mere provision of photocopiers for the use of its patrons did not constitute authorization to use the photocopiers to breach copyright law.

43 First, there was no evidence that the photocopiers had been used in a manner that was not consistent with copyright law. As noted, a person does not authorize copyright infringement by authorizing the mere use of equipment (such as photocopiers) that could be used to infringe copyright. In fact, courts should presume that a person who authorizes an activity does so only so far as it is in accordance with the law. Although the Court of Appeal assumed that the photocopiers were being used to infringe copyright, I think it is equally plausible that the patrons using the machines were doing so in a lawful manner.

44 Second, the Court of Appeal erred in finding that the Law Society's posting of the notice constitutes an express acknowledgement that the photocopiers will be used in an illegal manner. The Law Society's posting of the notice over the photocopiers does not rebut the presumption that a person authorizes an activity only so far as it is in accordance with the law. Given that the Law Society is responsible for regulating the legal profession in Ontario, it is more logical to conclude that the notice was posted for the purpose of reminding the Great Library's patrons that copyright law governs the making of photocopies in the library.

45 Finally, even if there were evidence of the photocopiers having been used to infringe copyright, the Law Society lacks sufficient control over the Great Library's patrons to permit the conclusion that it sanctioned, approved or countenanced the

infringement. The Law Society and Great Library patrons are not in a master-servant or employer-employee relationship such that the Law Society can be said to exercise control over the patrons who might commit infringement: see, for example, *De Tervagne*, *supra*. Nor does the Law Society exercise control over which works the patrons choose to copy, the patron's purposes for copying or the photocopiers themselves.

46 In summary, I conclude that evidence does not establish that the Law Society authorized copyright infringement by providing self-service photocopiers and copies of the respondent publishers' works for use by its patrons in the Great Library. I would allow this ground of appeal.

(3) *The Law Society and Fair Dealing*

47 The Great Library provides a custom photocopy service. Upon receiving a request from a lawyer, law student, member of the judiciary or authorized researcher, the Great Library staff photocopies extracts from legal material within its collection and sends it to the requester. The question is whether this service falls within the fair dealing defence under s. 29 of the *Copyright Act* which provides: "Fair dealing for the purpose of research or private study does not infringe copyright."

(a) *The Law*

48 Before reviewing the scope of the fair dealing exception under the *Copyright Act*, it is important to clarify some general considerations about exceptions to copyright infringement. Procedurally, a defendant is required to prove that his or her dealing with a work has been fair; however, the fair dealing exception is perhaps more properly understood as an integral part of the *Copyright Act* than simply a defence. Any act falling within the fair dealing exception will not be an infringement of copyright. The fair dealing exception, like other exceptions in the *Copyright Act*, is a user's right. In order to maintain the proper balance between the rights of a copyright owner and users' interests, it must not be interpreted restrictively. As Professor Vaver, *supra*, has explained, at p. 171: "User rights are not just loopholes. Both owner rights and user rights should therefore be given the fair and balanced reading that befits remedial legislation."

49 As an integral part of the scheme of copyright law, the s. 29 fair dealing exception is always available. Simply put, a library can always attempt to prove that its dealings with a copyrighted work are fair under s. 29 of the *Copyright Act*. It is only if a library were unable to make out the fair dealing exception under s. 29 that it would need to turn to s. 30.2 of the *Copyright Act* to prove that it qualified for the library exemption.

50 In order to show that a dealing was fair under s. 29 of the *Copyright Act*, a defendant must prove: (1) that the dealing was for the purpose of either research or private study and (2) that it was fair.

51 The fair dealing exception under s. 29 is open to those who can show that their dealings with a copyrighted work were for the purpose of research or private study. "Research" must be given a large and liberal interpretation in order to ensure that users' rights are not unduly constrained. I agree with the Court of Appeal that research is not limited to non-commercial or private contexts. The Court of Appeal correctly noted, at para. 128, that "[r]esearch for the purpose of advising clients, giving opinions, arguing cases, preparing briefs and factums is nonetheless research". Lawyers carrying on the business of law for profit are conducting research within the meaning of s. 29 of the *Copyright Act*.

52 The *Copyright Act* does not define what will be "fair"; whether something is fair is a question of fact and depends on the facts of each case. See McKeown, *supra*, at p. 23-6. Lord Denning explained this eloquently in *Hubbard v. Vosper* (1971), [1972] 1 All E.R. 1023 (Eng. C.A.), at p. 1027:

It is impossible to define what is 'fair dealing'. It must be a question of degree. You must consider first the number and extent of the quotations and extracts. Are they altogether too many and too long to be fair? Then you must consider the use made of them. If they are used as a basis for comment, criticism or review, that may be a fair dealing. If they are used to convey the same information as the author, for a rival purpose, that may be unfair. Next, you must consider the proportions. To take long extracts and attach short comments may be unfair. But, short extracts and long comments may

be fair. Other considerations may come to mind also. But, after all is said and done, it must be a matter of impression. As with fair comment in the law of libel, so with fair dealing in the law of copyright. The tribunal of fact must decide.

53 At the Court of Appeal, Linden J.A. acknowledged that there was no set test for fairness, but outlined a series of factors that could be considered to help assess whether a dealing is fair. Drawing on the decision in *Hubbard*, *supra*, as well as the doctrine of fair use in the United States, he proposed that the following factors be considered in assessing whether a dealing was fair: (1) the purpose of the dealing; (2) the character of the dealing; (3) the amount of the dealing; (4) alternatives to the dealing; (5) the nature of the work; and (6) the effect of the dealing on the work. Although these considerations will not all arise in every case of fair dealing, this list of factors provides a useful analytical framework to govern determinations of fairness in future cases.

(i) *The Purpose of the Dealing*

54 In Canada, the purpose of the dealing will be fair if it is for one of the allowable purposes under the *Copyright Act*, namely research, private study, criticism, review or news reporting: see ss. 29, 29.1 and 29.2 of the *Copyright Act*. As discussed, these allowable purposes should not be given a restrictive interpretation or this could result in the undue restriction of users' rights. This said, courts should attempt to make an objective assessment of the user/defendant's real purpose or motive in using the copyrighted work. See McKeown, *supra*, at p. 23-6. See also *Associated Newspapers Group plc v. News Group Newspapers Ltd.*, [1986] R.P.C. 515 (Eng. Ch. Div.). Moreover, as the Court of Appeal explained, some dealings, even if for an allowable purpose, may be more or less fair than others; research done for commercial purposes may not be as fair as research done for charitable purposes.

(ii) *The Character of the Dealing*

55 In assessing the character of a dealing, courts must examine how the works were dealt with. If multiple copies of works are being widely distributed, this will tend to be unfair. If, however, a single copy of a work is used for a specific legitimate purpose, then it may be easier to conclude that it was a fair dealing. If the copy of the work is destroyed after it is used for its specific intended purpose, this may also favour a finding of fairness. It may be relevant to consider the custom or practice in a particular trade or industry to determine whether or not the character of the dealing is fair. For example, in *Sillitoe v. McGraw Hill Book Co. (U.K.) Ltd.*, [1983] F.S.R. 545 (Eng. Ch.), the importers and distributors of "study notes" that incorporated large passages from published works attempted to claim that the copies were fair dealings because they were for the purpose of criticism. The court reviewed the ways in which copied works were customarily dealt with in literary criticism textbooks to help it conclude that the study notes were not fair dealings for the purpose of criticism.

(iii) *The Amount of the Dealing*

56 Both the amount of the dealing and importance of the work allegedly infringed should be considered in assessing fairness. If the amount taken from a work is trivial, the fair dealing analysis need not be undertaken at all because the court will have concluded that there was no copyright infringement. As the passage from *Hubbard* indicates, the quantity of the work taken will not be determinative of fairness, but it can help in the determination. It may be possible to deal fairly with a whole work. As Vaver points out, there might be no other way to criticize or review certain types of works such as photographs: see Vaver, *supra*, at p. 191. The amount taken may also be more or less fair depending on the purpose. For example, for the purpose of research or private study, it may be essential to copy an entire academic article or an entire judicial decision. However, if a work of literature is copied for the purpose of criticism, it will not likely be fair to include a full copy of the work in the critique.

(iv) *Alternatives to the Dealing*

57 Alternatives to dealing with the infringed work may affect the determination of fairness. If there is a non-copyrighted equivalent of the work that could have been used instead of the copyrighted work, this should be considered by the court. I agree with the Court of Appeal that it will also be useful for courts to attempt to determine whether the dealing was reasonably necessary to achieve the ultimate purpose. For example, if a criticism would be equally effective if it did not actually reproduce the copyrighted work it was criticizing, this may weigh against a finding of fairness.

(v) The Nature of the Work

58 The nature of the work in question should also be considered by courts assessing whether a dealing is fair. Although certainly not determinative, if a work has not been published, the dealing may be more fair in that its reproduction with acknowledgement could lead to a wider public dissemination of the work - one of the goals of copyright law. If, however, the work in question was confidential, this may tip the scales towards finding that the dealing was unfair. See *Beloff v. Pressdram Ltd.*, [1973] 1 All E.R. 241 at p. 264.

(vi) Effect of the Dealing on the Work

59 Finally, the effect of the dealing on the work is another factor warranting consideration when courts are determining whether a dealing is fair. If the reproduced work is likely to compete with the market of the original work, this may suggest that the dealing is not fair. Although the effect of the dealing on the market of the copyright owner is an important factor, it is neither the only factor nor the most important factor that a court must consider in deciding if the dealing is fair. See, for example, *Pro Sieben Media AG v. Carlton UK Television Ltd.*, [1999] F.S.R. 610 (Eng. C.A.), per Robert Walker L.J.

60 To conclude, the purpose of the dealing, the character of the dealing, the amount of the dealing, the nature of the work, available alternatives to the dealing and the effect of the dealing on the work are all factors that could help determine whether or not a dealing is fair. These factors may be more or less relevant to assessing the fairness of a dealing depending on the factual context of the allegedly infringing dealing. In some contexts, there may be factors other than those listed here that may help a court decide whether the dealing was fair.

(b) Application of the law to these facts

61 In 1996, the Law Society implemented an "Access to the Law Policy" ("Access Policy") which governs the Great Library's custom photocopy service and sets limits on the types of requests that will be honoured:

Access to the Law Policy

The Law Society of Upper Canada, with the assistance of the resources of the Great Library, supports the administration of justice and the rule of law in the Province of Ontario. The Great Library's comprehensive catalogue of primary and secondary legal sources, in print and electronic media, is open to lawyers, articling students, the judiciary and other authorized researchers. Single copies of library materials, required for the purposes of research, review, private study and criticism, as well as use in court, tribunal and government proceedings, may be provided to users of the Great Library.

This service supports users of the Great Library who require access to legal materials while respecting the copyright of the publishers of such materials, in keeping with the fair dealing provisions in Section 27 of the Canadian Copyright Act.

Guidelines to Access

1 The Access to the Law service provides single copies for specific purposes, identified in advance to library staff.

2 The specific purposes are research, review, private study and criticism, as well as use in court, tribunal, and government proceedings. Any doubt concerning the legitimacy of the request for these purposes will be referred to the Reference Librarian.

3 The individual must identify him/herself and the purpose at the time of making the request. A request form will be completed by library staff, based on information provided by the requesting party.

4 As to the amount of copying, discretion must be used. No copies will be made for any purpose other than that specifically set out on the request form. Ordinarily, requests for a copy of one case, one article or one statutory reference will be satisfied

as a matter of routine. Requests for substantial copying from secondary sources (e.g. in excess of 5% of the volume or more than two citations from one volume) will be referred to the Reference Librarian and may ultimately be refused.

5 This service is provided on a not for profit basis. The fee charged for this service is intended to cover the costs of the Law Society.

When the Access Policy was introduced, the Law Society specified that it reflected the policy that the Great Library had been following in the past; it did not change the Law Society's approach to its custom photocopy service.

62 At trial, the Law Society claimed that its custom photocopy service does not infringe copyright because it is a fair dealing within the meaning of s. 29 of the *Copyright Act*. The trial judge held that the fair dealing exception should be strictly construed. He concluded that copying for the custom photocopy service was not for the purpose of either research or study and therefore was not within the ambit of fair dealing. The Court of Appeal rejected the argument that the fair dealing exception should be interpreted restrictively. The majority held that the Law Society could rely on the purposes of its patrons to prove that its dealings were fair. The Court of Appeal concluded, however, that there was not sufficient evidence to determine whether or not the dealings were fair and, consequently, that the fair dealing exception had not been proven.

63 This raises a preliminary question: is it incumbent on the Law Society to adduce evidence that every patron uses the material provided for in a fair dealing manner or can the Law Society rely on its general practice to establish fair dealing? I conclude that the latter suffices. Section 29 of the *Copyright Act* states that "[f]air dealing for the purpose of research or private study does not infringe copyright". The language is general. "Dealing" connotes not individual acts, but a practice or system. This comports with the purpose of the fair dealing exception, which is to ensure that users are not unduly restricted in their ability to use and disseminate copyrighted works. Persons or institutions relying on the s. 29 fair dealing exception need only prove that their own dealings with copyrighted works were for the purpose of research or private study and were fair. They may do this either by showing that their own practices and policies were research-based and fair, or by showing that all individual dealings with the materials were in fact research-based and fair.

64 The Law Society's custom photocopying service is provided for the purpose of research, review and private study. The Law Society's Access Policy states that "[s]ingle copies of library materials, required for the purposes of research, review, private study and criticism ... may be provided to users of the Great Library". When the Great Library staff make copies of the requested cases, statutes, excerpts from legal texts and legal commentary, they do so for the purpose of research. Although the retrieval and photocopying of legal works are not research in and of themselves, they are necessary conditions of research and thus part of the research process. The reproduction of legal works is for the purpose of research in that it is an essential element of the legal research process. There is no other purpose for the copying; the Law Society does not profit from this service. Put simply, its custom photocopy service helps to ensure that legal professionals in Ontario can access the materials necessary to conduct the research required to carry on the practice of law. In sum, the Law Society's custom photocopy service is an integral part of the legal research process, an allowable purpose under s. 29 of the *Copyright Act*.

65 The evidence also establishes that the dealings were fair, having regard to the factors discussed earlier.

(i) *Purpose of the Dealing*

66 The Access Policy and its safeguards weigh in favour of finding that the dealings were fair. It specifies that individuals requesting copies must identify the purpose of the request for these requests to be honoured, and provides that concerns that a request is not for one of the legitimate purposes under the fair dealing exceptions in the *Copyright Act* are referred to the Reference Librarian. This policy provides reasonable safeguards that the materials are being used for the purpose of research and private study.

(ii) *Character of the Dealing*

67 The character of the Law Society's dealings with the publishers' works also supports a finding of fairness. Under the Access Policy, the Law Society provides single copies of works for the specific purposes allowed under the *Copyright Act*. There is

no evidence that the Law Society was disseminating multiple copies of works to multiple members of the legal profession. Copying a work for the purpose of research on a specific legal topic is generally a fair dealing.

(iii) Amount of the Dealing

68 The Access Policy indicates that the Great Library will exercise its discretion to ensure that the amount of the dealing with copyrighted works will be reasonable. The Access Policy states that the Great Library will typically honour requests for a copy of one case, one article or one statutory reference. It further stipulates that the Reference Librarian will review requests for a copy of more than five percent of a secondary source and that, ultimately, such requests may be refused. This suggests that the Law Society's dealings with the publishers' works are fair. Although the dealings might not be fair if a specific patron of the Great Library submitted numerous requests for multiple reported judicial decisions from the same reported series over a short period of time, there is no evidence that this has occurred.

(iv) Alternatives to the Dealing

69 It is not apparent that there are alternatives to the custom photocopy service employed by the Great Library. As the Court of Appeal points out, the patrons of the custom photocopying service cannot reasonably be expected to always conduct their research on-site at the Great Library. Twenty per cent of the requesters live outside the Toronto area; it would be burdensome to expect them to travel to the city each time they wanted to track down a specific legal source. Moreover, because of the heavy demand for the legal collection at the Great Library, researchers are not allowed to borrow materials from the library. If researchers could not request copies of the work or make copies of the works themselves, they would be required to do all of their research and note-taking in the Great Library, something which does not seem reasonable given the volume of research that can often be required on complex legal matters.

70 The availability of a licence is not relevant to deciding whether a dealing has been fair. As discussed, fair dealing is an integral part of the scheme of copyright law in Canada. Any act falling within the fair dealing exception will not infringe copyright. If a copyright owner were allowed to license people to use its work and then point to a person's decision not to obtain a licence as proof that his or her dealings were not fair, this would extend the scope of the owner's monopoly over the use of his or her work in a manner that would not be consistent with the *Copyright Act's* balance between owner's rights and user's interests.

(v) Nature of the Work

71 I agree with the Court of Appeal that the nature of the works in question - judicial decisions and other works essential to legal research -- suggests that the Law Society's dealings were fair. As Linden J.A. explained, at para. 159: "It is generally in the public interest that access to judicial decisions and other legal resources not be unjustifiably restrained." Moreover, the Access Policy puts reasonable limits on the Great Library's photocopy service. It does not allow all legal works to be copied regardless of the purpose to which they will be put. Requests for copies will be honoured only if the user intends to use the works for the purpose of research, private study, criticism, review or use in legal proceedings. This further supports a finding that the dealings were fair.

(vi) Effect of the Dealing on the Work

72 Another consideration is that no evidence was tendered to show that the market for the publishers' works had decreased as a result of these copies having been made. Although the burden of proving fair dealing lies with the Law Society, it lacked access to evidence about the effect of the dealing on the publishers' markets. If there had been evidence that the publishers' markets had been negatively affected by the Law Society's custom photocopying service, it would have been in the publishers' interest to tender it at trial. They did not do so. The only evidence of market impact is that the publishers have continued to produce new reporter series and legal publications during the period of the custom photocopy service's operation.

(vii) Conclusion

73 The factors discussed, considered together, suggest that the Law Society's dealings with the publishers' works through its custom photocopy service were research-based and fair. The Access Policy places appropriate limits on the type of copying that the Law Society will do. It states that not all requests will be honoured. If a request does not appear to be for the purpose of research, criticism, review or private study, the copy will not be made. If a question arises as to whether the stated purpose is legitimate, the Reference Librarian will review the matter. The Access Policy limits the amount of work that will be copied, and the Reference Librarian reviews requests that exceed what might typically be considered reasonable and has the right to refuse to fulfill a request. On these facts, I conclude that the Law Society's dealings with the publishers' works satisfy the fair dealing defence and that the Law Society does not infringe copyright.

(4) Canada Law Book's Consent

74 Under s. 27(1) of the *Copyright Act*, a person infringes copyright if he or she does something that only the owner of the copyright has the right to do without the owner's consent. On appeal to this Court, the Law Society submits that six of the items that the respondent publishers have claimed were copied in infringement of copyright were copied at the request of Jean Cummings, a lawyer who had been asked by Canada Law Book's Vice-President to obtain copies of these works from the Law Society. As such, the Law Society contends that the copies were made with the consent of Canada Law Book and therefore were not an infringement of copyright.

75 This issue was not really addressed in the courts below. In light of my findings on the issue of fair dealing, it is not necessary to answer this question to dispose of this appeal, and I decline to do so.

(5) Conclusion on Main Appeal

76 I would allow the appeal and issue a declaration that the Law Society does not infringe copyright when a single copy of a reported decision, case summary, statute, regulation or limited selection of text from a treatise is made by the Great Library in accordance with its Access Policy. I would also issue a declaration that the Law Society does not authorize copyright infringement by maintaining a photocopier in the Great Library and posting a notice warning that it will not be responsible for any copies made in infringement of copyright.

III. Analysis on Cross-Appeal

(1) Are the Law Society's fax transmissions communications to the public?

77 At trial, the publishers argued that the Law Society's fax transmissions of copies of their works to lawyers in Ontario were communications "to the public by telecommunication" and hence infringed s. 3(1)(f) of the *Copyright Act*. The trial judge found that the fax transmissions were not telecommunications to the public because they "emanated from a single point and were each intended to be received at a single point" (at para. 167). The Court of Appeal agreed, although it allowed that a series of sequential transmissions might constitute an infringement of an owner's right to communicate to the public.

78 I agree with these conclusions. The fax transmission of a single copy to a single individual is not a communication to the public. This said, a series of repeated fax transmissions of the same work to numerous different recipients might constitute communication to the public in infringement of copyright. However, there was no evidence of this type of transmission having occurred in this case.

79 On the evidence in this case, the fax transmissions were not communications to the public. I would dismiss this ground of cross-appeal.

(2) Did the Law Society infringe copyright in the publishers' works by selling copies contrary to s. 27(2) of the Copyright Act?

80 Under s. 27(2)(a) of the *Copyright Act*, it is an infringement of copyright to sell a copy of a work that the person knows or should have known infringes copyright, a practice known as secondary infringement. The majority at the Court of Appeal

rejected the allegation of secondary infringement on the ground that it was not established that the Law Society knew or should have known it was dealing with infringing copies of the publishers' works. The publishers appeal this finding on cross-appeal.

81 At the Court of Appeal, Rothstein J.A., in his concurring judgment, properly outlined the three elements that must be proven to ground a claim for secondary infringement: (1) the copy must be the product of primary infringement; (2) the secondary infringer must have known or should have known that he or she is dealing with a product of infringement; and (3) the secondary dealing must be established; that is, there must have been a sale.

82 In the main appeal, I have concluded that the Law Society did not infringe copyright in reproducing the publishers' works in response to requests under its custom photocopy service. Absent primary infringement, there can be no secondary infringement. I would dismiss this ground of cross-appeal.

(3) Does the Law Society's Great Library qualify for an exemption as a "library, archive or museum" under ss. 2 and 30.2(1) of the Copyright Act?

83 In 1999, amendments to the *Copyright Act* came into force allowing libraries, archives and museums to qualify for exemptions against copyright infringement. Under s. 30.2(1), a library or persons acting under its authority may do anything on behalf of any person that the person may do personally under the fair dealing exceptions to copyright infringement. Section 2 of the *Copyright Act* defines library, archive or museum. In order to qualify as a library, the Great Library: (1) must not be established or conducted for profit; (2) must not be administered or controlled by a body that is established or conducted for profit; and (3) must hold and maintain a collection of documents and other materials that is open to the public or to researchers. The Court of Appeal found that the Great Library qualified for the library exemption. The publishers appeal this finding on the ground that the Law Society, which controls the library, is indirectly controlled by the body of lawyers authorized to practise law in Ontario who conduct the business of law for profit.

84 I concluded in the main appeal that the Law Society's dealings with the publishers' works were fair. Thus, the Law Society need not rely on the library exemption. However, were it necessary, it would be entitled to do so. The Great Library is not established or conducted for profit. It is administered and controlled by the Benchers of the Law Society. Although some of the Benchers, when acting in other capacities, practise law for profit, when they are acting as administrators of the Great Library, the Benchers are not acting as a body established or conducted for profit. The Court of Appeal was correct in its conclusion on this point. I would dismiss this ground of cross-appeal.

(4) Are the publishers entitled to a permanent injunction under s. 34(1) of the Copyright Act?

85 Under s. 34(1) of the *Copyright Act*, the copyright owner is entitled to all remedies, including an injunction, for the infringement of copyright in his or her work. An injunction is, in principle, an equitable remedy and, thus, it is within the Court's discretion to decide whether or not to grant an injunction. See P.E. Kierans and R. Borenstein, "Injunctions - Interlocutory and Permanent", in R.E. Dimock, ed., *Intellectual Property Disputes: Resolutions & Remedies* (2002), vol. 2, at p. 15-4.

86 Given my finding on the main appeal that the Law Society did not infringe copyright in the publishers' works, it is unnecessary to consider whether the Court of Appeal erred in choosing not to issue an injunction in this case. I would dismiss this ground of appeal.

(5) Conclusion on Cross-Appeal

87 In the result, I would dismiss the cross-appeal.

IV. Conclusion

88 On the main appeal, I conclude that the Law Society did not infringe copyright through its custom photocopy service when it provided single copies of the publishers' works to its members. The publishers' headnotes, case summary, topical index and compilation of reported judicial decisions are all "original" works covered by copyright. They originated from their authors, are

not mere copies and are the product of the exercise of skill and judgment that is not trivial. That said, the Great Library's dealings with the works were for the purpose of research and were fair dealings within the meaning of s. 29 of the *Copyright Act* and thus did not constitute copyright infringement. I also conclude that the Law Society did not authorize copyright infringement by maintaining self-service photocopiers in the Great Library for use by its patrons. I would therefore allow the appeal.

89 My conclusions on the cross-appeal follow from those on the main appeal. No secondary infringement of copyright by the Law Society is established. The Law Society's fax transmissions did not constitute communications to the public and it did not sell copies of the publishers' works. Were it necessary, I would conclude that the Great Library qualifies for a library exemption under the *Copyright Act*. Finally, in light of my finding that there has been no copyright infringement in this case, an injunction should not be issued in this case. I would dismiss the cross-appeal.

90 In the result, the appeal is allowed and the cross-appeal dismissed. I would issue a declaration that the Law Society does not infringe copyright when a single copy of a reported decision, case summary, statute, regulation or limited selection of text from a treatise is made by the Great Library in accordance with its "Access to the Law Policy". I would also issue a declaration that the Law Society does not authorize copyright infringement by maintaining a photocopier in the Great Library and posting a notice warning that it will not be responsible for any copies made in infringement of copyright. Given the appellant's success on the appeal and cross-appeal, it is entitled to costs throughout.

Appeal allowed with costs and cross-appeal dismissed with costs.

Appeal allowed; cross-appeal dismissed.

Pourvoi accueilli; pourvoi incident rejeté.

APPENDIX — Legislative Provisions:

Copyright Act, R.S.C. 1985, c. C-42, as amended.

2. "every original literary, dramatic, musical and artistic work" includes every original production in the literary, scientific or artistic domain, whatever may be the mode or form of its expression, such as compilations, books, pamphlets and other writings, lectures, dramatic or dramatico-musical works, musical works, translations, illustrations, sketches and plastic works relative to geography, topography, architecture or science "library, archive or museum" means

(a) an institution, whether or not incorporated, that is not established or conducted for profit or that does not form a part of, or is not administered or directly or indirectly controlled by, a body that is established or conducted for profit, in which is held and maintained a collection of documents and other materials that is open to the public or to researchers, or

(b) any other non-profit institution prescribed by regulation

3. (1) For the purposes of this Act, "copyright", in relation to a work, means the sole right to produce or reproduce the work or any substantial part thereof in any material form whatever, to perform the work or any substantial part thereof in public or, if the work is unpublished, to publish the work or any substantial part thereof, and includes the sole right

(a) to produce, reproduce, perform or publish any translation of the work,

(b) in the case of a dramatic work, to convert it into a novel or other non-dramatic work,

(c) in the case of a novel or other non-dramatic work, or of an artistic work, to convert it into a dramatic work, by way of performance in public or otherwise,

(d) in the case of a literary, dramatic or musical work, to make any sound recording, cinematograph film or other contrivance by means of which the work may be mechanically reproduced or performed,

(e) in the case of any literary, dramatic, musical or artistic work, to reproduce, adapt and publicly present the work as a cinematographic work,

(f) in the case of any literary, dramatic, musical or artistic work, to communicate the work to the public by telecommunication,

(g) to present at a public exhibition, for a purpose other than sale or hire, an artistic work created after June 7, 1988, other than a map, chart or plan,

(h) in the case of a computer program that can be reproduced in the ordinary course of its use, other than by a reproduction during its execution in conjunction with a machine, device or computer, to rent out the computer program, and

(i) in the case of a musical work, to rent out a sound recording in which the work is embodied, and to authorize any such acts.

5. (1) Subject to this Act, copyright shall subsist in Canada, for the term hereinafter mentioned, in every original literary, dramatic, musical and artistic work if any one of the following conditions is met:...

27. (1) It is an infringement of copyright for any person to do, without the consent of the owner of the copyright, anything that by this Act only the owner of the copyright has the right to do.

(2) It is an infringement of copyright for any person to

(a) sell or rent out,

(b) distribute to such an extent as to affect prejudicially the owner of the copyright,

(c) by way of trade distribute, expose or offer for sale or rental, or exhibit in public,

(d) possess for the purpose of doing anything referred to in paragraphs (a) to (c), or

(e) import into Canada for the purpose of doing anything referred to in paragraphs (a) to (c), a copy of a work, sound recording or fixation of a performer's performance or of a communication signal that the person knows or should have known infringes copyright or would infringe copyright if it had been made in Canada by the person who made it.

29. Fair dealing for the purpose of research or private study does not infringe copyright.

29.1 Fair dealing for the purpose of criticism or review does not infringe copyright if the following are mentioned:

(a) the source; and

(b) if given in the source, the name of the

(i) author, in the case of a work,

(ii) performer, in the case of a performer's performance,

(iii) maker, in the case of a sound recording, or

(iv) broadcaster, in the case of a communication signal.

29.2 Fair dealing for the purpose of news reporting does not infringe copyright if the following are mentioned:

(a) the source; and

(b) if given in the source, the name of the

- (i) author, in the case of a work,
- (ii) performer, in the case of a performer's performance,
- (iii) maker, in the case of a sound recording, or
- (iv) broadcaster, in the case of a communication signal.

30.2 (1) It is not an infringement of copyright for a library, archive or museum or a person acting under its authority to do anything on behalf of any person that the person may do personally under section 29 or 29.1.

34. (1) Where copyright has been infringed, the owner of the copyright is, subject to this Act, entitled to all remedies by way of injunction, damages, accounts, delivery up and otherwise that are or may be conferred by law for the infringement of a right.

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Tab 6

2005 FC 691, 2005 CF 691
Federal Court

Cinémas Guzzo Inc. c. Canada (Procureur général)

2005 CarswellNat 1349, 2005 CarswellNat 5321, 2005 FC 691, 2005 CF
691, 147 A.C.W.S. (3d) 985, 277 F.T.R. 39 (Eng.), 47 C.P.R. (4th) 250

Cinémas Guzzo Inc., Applicant and Attorney General of Canada, Respondent

Rouleau J.

Heard: April 19, 2005
Judgment: May 13, 2005
Docket: T-37-03

Counsel: Me Franco Iezzoni, pour demanderesse
Me Nathalie Benoit, pour défendeur

Subject: Corporate and Commercial

Table of Authorities

Cases considered by *Rouleau J.*:

Baker v. Canada (Minister of Citizenship & Immigration) (1999), 174 D.L.R. (4th) 193, 1999 CarswellNat 1124, 1999 CarswellNat 1125, 243 N.R. 22, 1 Imm. L.R. (3d) 1, 14 Admin. L.R. (3d) 173, [1999] 2 S.C.R. 817 (S.C.C.) — followed

Canada (Director of Investigation & Research) v. Warner Music Canada Ltd. (1997), 78 C.P.R. (3d) 321, 1997 CarswellNat 2811, 43 B.L.R. (2d) 93 (Competition Trib.) — distinguished

Charette v. Canada (Commissioner of Competition) (2003), 2003 FCA 426, 2003 CarswellNat 3623, 245 F.T.R. 320 (note), 2003 CAF 426, 2003 CarswellNat 4759, 312 N.R. 358, 29 C.P.R. (4th) 1 (F.C.A.) — followed

Gauthier v. Canada (Consumer & Corporate Affairs) (1991), (sub nom. *Gauthier v. Director of Investigation & Research, Competition Act*) 139 N.R. 77, 1991 CarswellNat 868 (Fed. C.A.) — followed

Minister of National Revenue v. Coopers & Lybrand (1978), [1979] 1 S.C.R. 495, 92 D.L.R. (3d) 1, [1978] C.T.C. 829, 78 D.T.C. 6528, 24 N.R. 163, 1978 CarswellNat 257, 1978 CarswellNat 568 (S.C.C.) — considered

Statutes considered:

Competition Act, R.S.C. 1985, c. C-34
Generally — referred to

s. 2(1) "produit" — considered

s. 10 — considered

- s. 10(1)(b)(ii) — considered
- s. 10(2) — considered
- s. 10(3) — considered
- s. 22 — referred to
- s. 22(1) — considered
- s. 22(4) — considered
- s. 32 — referred to
- s. 32(2) — considered
- s. 32(2)(c) — referred to
- s. 75 — considered
- s. 79 — considered
- s. 103.1 [en. 2002, c. 16, s. 12] — considered
- s. 103.1(1) [en. 2002, c. 16, s. 12] — considered

APPLICATION by applicant for judicial review of decision of Competition Commissioner to terminate investigation of applicant's complaint.

Rouleau J.:

1 This is an application for judicial review of a decision of the Commissioner of Competition (the Commissioner) to discontinue an inquiry into the distribution of motion pictures in Canada. In this decision, dated December 13, 2002, the Commissioner found no evidence of anti-competitive practices.

2 The applicant has been in the motion picture theatre business since 1974. According to its claims, between 1974 and 1985, it was unable to obtain first-run films from distributors, since these distributors had given Famous Players and Odeon exclusive rights to them. The applicant would thus only receive a film once Famous Players or Odeon had withdrawn it from their theatres.

3 In 1983, Cineplex filed a complaint with the Competition Bureau (the Bureau), since it was denied access to these first-run films. Shortly thereafter, Cineplex acquired Odeon, becoming Cineplex Odeon. Certain distributors, along with Cineplex Odeon and Famous Players, then signed agreements with the Bureau under the terms of which they would let all movie theatre operators have easier access to films, thus putting the complaint to rest.

4 Around 1985, the applicant agreed to pay Cineplex Odeon ten percent of its box office receipts in return for films. In 1991, the applicant reached an agreement with Cineplex Odeon giving it exclusive rights over the area in the eastern part of Montréal under the same terms and conditions of the 1985 agreement.

5 The applicant submits that, in 1998, Famous Players and Cineplex Odeon demanded that distributors give them exclusive rights to certain films that had been granted to the applicant.

6 In June 1998, the applicant filed a complaint, and certain facts were brought to the attention of the Commissioner. A number of movie theatre operators had allegedly come together to pressure certain film distributors not to allow the theatres' competitors to obtain commercially valuable films. More specifically, the following allegations were made:

- Famous Players and Cineplex Odeon controlled the motion picture market in Canada through certain policies imposed on leading film distributors;
- these film distributors were in league with Famous Players and Cineplex Odeon;
- Famous Players and Cineplex Odeon, in collusion with the distributors, had set up a system to ensure that their competitors would be unable to obtain these films; and
- certain practices of the motion picture industry contravened section 79 of the *Competition Act*¹ (the Act), which relates to the abuse of dominant position.

7 On April 28, 2000, the Commissioner ordered that an inquiry be commenced under subparagraph 10(1)(b)(ii) of the Act. The inquiry was to look into business practices relating to the distribution of motion pictures and determine if there were sufficient grounds to issue orders under sections 75 and 79 of the Act.

8 The applicant claims that, while the inquiry was in progress, the distributors and theatre operators began complying with the Act, thus giving the applicant access to the films.

9 In May 2001, the Commissioner asked the applicant's opinion on the application of the decision in *Canada (Director of Investigation & Research) v. Warner Music Canada Ltd.*² In the applicant's view, this decision would not apply to the motion picture industry.

10 On March 28, 2002, the Commissioner sent the applicant his findings, along with a document setting out the solutions applied following a similar inquiry in Australia (the report had been introduced into the record at the hearing and was subject to a confidentiality order). The report's introductory page stated that the report contained preliminary findings that were subject to change.

11 On April 2, 2002, Bureau members met with the applicant to inform the applicant about developments in the inquiry. According to the applicant's claims, the inquiry was discontinued at this time (applicant's memorandum, at paragraph 42). In a letter accompanying the July report, it was mentioned that, during this meeting, Bureau representatives allegedly notified the applicant that they had hired an external economist to review the evidence. On May 31, 2002, the Commissioner once again informed the applicant that an external economist had been retained to analyse the evidence (this letter came with a confidentiality order).

12 The Commissioner issued a report on July 12, 2002 (the report was introduced at the hearing and came with a confidentiality order). Essentially, the report stated that there was insufficient evidence to support a finding of anti-competitive practices and that the solutions at the Commissioner's disposal were limited because of paragraph 32(2)(c) of the Act. The report indicated that, since the March report, supplementary interviews and additional analysis had been carried out. It also mentioned that an external economist had been used. The letter accompanying the report invited the applicant to comment on the report.

13 On July 15, the applicant tried to obtain a copy of the external economist's opinion but was turned down by the Commissioner. In a letter dated July 22, the Bureau informed the applicant that [TRANSLATION] "the substance of the documents of which you are requesting copies has already been shared with you". The Bureau maintained that the essential points of the external economist's report were included in the July 12 report. The Bureau also offered to meet with the applicant if the applicant wanted additional information or clarification to help prepare its written representations.

14 On July 22, 2002, the applicant filed an application for declaratory judgment against the Commissioner in Federal Court (T-1284-02). The application asked that section 32 of the Act be declared inapplicable to the applicant.

15 Through an exchange of correspondence and a series of telephone conversations, the parties tried to schedule a meeting, but none ever took place. In a letter dated October 9, 2002, the applicant explained that it could not attend the meeting, since it was unable to prepare a reply, as it did not have a copy of the report.

16 On October 8, 2002, the applicant filed another application for judicial review to obtain a copy of this report. A motion for interlocutory injunction was filed as well to prevent the Commissioner from tabling any final findings before the applicant introduced its reply. The motion was dismissed by Rouleau J. on October 22, 2002 (T-1717-02). On December 1, 2003, the applicant dropped the other two cases, limiting itself to pursuing the one currently at bar.

17 On December 13, the Commissioner informed the applicant that the inquiry was being discontinued. The applicant has made no application to have this decision reviewed by the Minister of Industry (subsection 22(4) of the Act).

18 First, the Bureau states that, given that the distributors hold the licensing rights to their films in Canada, and in light of the decision in *Warner*, in which the Competition Tribunal dismissed the Commissioner's application on the ground that the licences were not a "product" within the meaning of section 75 of the Act, it determined that it could not take action on the complaints filed by the distributors pursuant to section 75.

19 With regard to section 79, abuse of dominant position, the available evidence was insufficient to convince the Tribunal that Famous Players had put pressure on the distributors. Furthermore, the alleged dominance wielded jointly by the distributors and the theatre operators could not be demonstrated. Certain distributors' preferences and the practice of granting only one licence per region did not constitute anti-competitive actions. Finally, there was no evidence that these practices reduced or prevented competition.

20 The applicant submits that the Bureau's decision to discontinue its inquiry demonstrates a refusal to carry out its duties. It explains that the Bureau did not need to retain the services of an external economist. With regard to the report, the applicant states that the Bureau was obliged to provide it with a copy and that the Bureau's refusal to do so was a breach of its duty to act fairly.

21 Furthermore, according to the applicant, the Bureau did not act fairly, in that the Bureau should have waited for the Federal Court's rulings on the two applications made by the applicant; it should have obtained a third opinion and/or allowed the applicant to obtain one, since the two economists' reports were contradictory; the Bureau's findings are contradictory; and the decision in *Warner* is not applicable, since a film is a product.

22 Finally, the applicant submits that the *audi alteram partem* rule was broken, since the Bureau prevented the applicant from filing a reply, even though it had a duty to allow the applicant to respond to this report. In order to respond adequately, the applicant needed access to the entire report.

23 At the hearing, the applicant devoted much of its arguments to the fact that it was notified of the use of an external economist for the first time in the letter of May 31. The Bureau sent the July 12 report to the applicant. Thus, according to the applicant's claims, the Bureau had already made its decision before allowing the applicant to prepare a reply, even though the Bureau was obliged to give the applicant an opportunity to respond before issuing its final findings.

24 By means of a motion to amend, the applicant was allowed to add the following conclusions: (1) rescind the decision dated December 12, 2002, and (2) declare that section 32 does not apply in the present case. The applicant also asked for the addition of a conclusion ordering that the external economist's report be handed over to the applicant, but the Protonotary refused (order dated April 12, 2005). This decision was the subject of an appeal heard by Rouleau J. on April 18, 2005.

25 First of all, with regard to the facts, the respondent made the following assertions. The respondent stated that the inquiry team considered all of the documentation on record before recommending that the inquiry be discontinued.

26 Second, at the April 2, 2002 meeting, the Bureau's representatives indicated that the inquiry was not over and that supplementary analyses respecting the preliminary results would have to be conducted. These discussions were undertaken without prejudice and were strictly confidential. On July 12, 2002, the Bureau notified the applicant that the external economist's study did not confirm the report's preliminary results.

27 The respondent also stated that the external expert's objectivity was beyond reproach, since he had been referred by the Bureau's economist, who was favourable to the applicant's position. Moreover, the applicant had the opportunity to retain another expert to contradict the July report, but this was not done.

28 The respondent noted that the applicant should have to exhaust all internal remedies before being allowed to apply for judicial review. Subsection 22(4) of the Act allows a decision to be reviewed upon application to the Minister. Furthermore, section 103.1 allows persons to apply directly to the Competition Tribunal, so it was open to the applicant to proceed in this manner.

29 The respondent submits that the applicant has neither alleged nor demonstrated any grounds for judicial intervention. As the respondent explained, the Commissioner has considerable powers of inquiry under section 10 of the Act. Relying on decisions of the Federal Court of Appeal, the respondent argues that this provision does not oblige the Commissioner to commence an inquiry and that the Commissioner has wide discretion. The Commissioner's decision to refuse to open an inquiry is purely administrative and therefore not subject to judicial review.

30 Should the Court find that the decision is subject to judicial review, the respondent submits that the standard of review is minimal and that the courts cannot intervene except in cases of fraud or bad faith. The respondent argues that the decision to discontinue the inquiry has not directly affected the applicant's rights.

31 Moreover, the respondent is of the view that the applicant has not shown that the Commissioner's decision was unlawful or in bad faith.

32 According to the respondent, the issue of access to the external economist's report should not have to be reviewed, since the Bureau handed over all the documentation it could, given the confidential nature of the inquiry. Even though the Bureau was under no obligation to consult with the applicant, it did everything necessary to keep the applicant informed about the inquiry and invited the applicant to make comments. Moreover, the Bureau did not need to wait for the Federal Court's decisions.

33 With regard to the application of *Warner*, the respondent argues that, in order to reconcile intellectual property law with competition law, this decision does not apply if copyright is used for anti-competitive purposes. If copyright is used in this manner, review is possible.

34 The following provisions of the Act are applicable in the case at bar:

10.(1) The Commissioner shall

...

(b) whenever the Commissioner has reason to believe that

...

(ii) grounds exist for the making of an order under Part VII.1 or Part VII

...

cause an inquiry to be made into all such matters as the Commissioner considers necessary to inquire into with the view of determining the facts.

22.(1) At any stage of an inquiry under section 10, if the Commissioner is of the opinion that the matter being inquired into does not justify further inquiry, the Commissioner may discontinue the inquiry.

...

(4) The Minister may, on the written request of applicants under section 9 or on the Minister's own motion, review any decision of the Commissioner to discontinue an inquiry under section 10, and may, if in the Minister's opinion the circumstances warrant, instruct the Commissioner to make further inquiry.

32.(2) The Federal Court, on an information exhibited by the Attorney General of Canada, may, for the purpose of preventing any use in the manner defined in subsection of the exclusive rights and privileges conferred by any patents for invention, trade-marks, copyrights or registered integrated circuit topographies relating to or affecting the manufacture, use or sale of any article or commodity that may be a subject of trade or commerce, make one or the following orders: ...

103.(1) Any person may apply to the Tribunal for leave to make an application under section 75 or 77. The application for leave must be accompanied by an affidavit setting out the facts in support of the person's application under section 75 or 77.

10.(1) Le Commissaire fait étudier, dans l'un ou l'autre des cas suivants, toutes questions qui, d'après lui, nécessitent une enquête en vue de déterminer les faits:

...

(b) chaque fois qu'il a des raisons de croire:

...

(ii) soit qu'il existe des motifs justifiant une ordonnance en vertu des parties VII.1 ou VIII

22. (1) Le commissaire peut, à toute étape d'une enquête visée à l'article 10, discontinuer l'enquête en question lorsqu'il estime que l'affaire sous étude ne justifie pas la poursuite de l'enquête.

...

(4) Le ministre peut, de sa propre initiative ou à la demande écrite des requérants visés à l'article 9, réviser la décision du commissaire de discontinuer l'enquête prévue à l'article 10 et, s'il estime que les circonstances le justifient, il peut donner au commissaire l'ordre de poursuivre l'enquête.

32.(2) La Cour fédérale, sur une plainte exhibée par le procureur général du Canada, peut, en vue d'empêcher tout usage, de la manière définie au paragraphe (1), des droits et privilèges exclusifs conférés par des brevets d'invention, des marques de commerce, des droits d'auteur ou des topographies de circuits intégrés enregistrées touchant ou visant la fabrication, l'emploi ou la vente de tout article ou denrée pouvant faire l'objet d'un échange ou d'un commerce, rendre une ou plusieurs des ordonnances suivantes: ...

103.(1) Toute personne peut demander au Tribunal la permission de présenter une demande en vertu des articles 75 ou 77. La demande doit être accompagnée d'une déclaration sous serment faisant état des faits sur lesquels elle se fonde.

35 First, it is important to determine the nature of the decision made by the Commissioner. The Commissioner has considerable powers of inquiry in terms of preserving and encouraging competition in Canada. Section 10 of the Act sets out the conditions for initiating an inquiry, while section 22 explains the process for discontinuing one. It should be noted that the Minister of Industry may, on his or her own motion, review the Commissioner's decision to discontinue an inquiry (subsection 22(4)). Furthermore, an application to the Competition Tribunal can be made directly pursuant to section 103.1.

36 The case law and doctrine have on numerous occasions considered the tests for determining the nature of an action. An administrative action can be defined as follows:

[TRANSLATION]

An administrative action is generally a decision made by the Administration in pursuit of its mandate to manage, regulate, monitor and control various areas of economic or social activity, to investigate, to issue permits, to authorize or to grant economic or social benefits When the decision maker acts pursuant to a discretionary power, and especially in the public interest, the fact that he or she holds a hearing or accepts the submissions of the persons affected by the decision in no way changes the nature of the decision. The decision remains an administrative one if it deals with considerations of the collective good of the community as a whole, rather than with the rights of the parties to the dispute. The decision is administrative when the decision maker, in the furtherance of its mission to protect the public interest, controls an area of activity. This may include issuing, renewing, suspending and revoking permits in accordance with the conditions and limits prescribed by law The decision of the Minister to hold an inquiry or not is an administrative one.³

37 Administrative action is often defined by what it is not, by characterizing it as judicial or quasi-judicial in light of the following criteria:

It is possible, I think, to formulate several criteria for determining whether a decision or order is one required by law to be made on a judicial or quasi-judicial basis. The list is not intended to be exhaustive.

(1) Is there anything in the language in which the function is conferred or in the general context in which it is exercised which suggests that a hearing is contemplated before a decision is reached?

(2) Does the decision or order directly or indirectly affect the rights and obligations of persons?

(3) Is the adversary process involved?

(4) Is there an obligation to apply substantive rules to many individual cases rather than, for example, the obligation to implement social and economic policy in a broad sense?

These are all factors to be weighed and evaluated, no one of which is necessarily determinative. Thus, as to (1), the absence of express language mandating a hearing does not necessarily preclude a duty to afford a hearing at common law. As to (2), the nature and severity of the manner, if any, in which individual rights are affected, and whether or not the decision or order is final, will be important, but the fact that rights are affected does not necessarily carry with it an obligation to act judicially

In more general terms, one must have regard to the subject matter of the power, the nature of the issue to be decided, and the importance of the determination upon those directly or indirectly affected thereby: see *Durayappah v. Fernando*. The more important the issue and the more serious the sanctions, the stronger the claim that the power be subject in its exercise to judicial or quasi-judicial process.⁴

38 In the field of competition law, the Federal Court of Appeal determined that the Director's refusal to proceed with an inquiry was a purely administrative decision and therefore not subject to judicial review:

On November 14, 1989, the section 28 applicants (respondents on this motion) sent a letter to the Director informing him of facts which, in their view, were sufficient to induce the Director to direct an inquiry under section 10. The Director wrote the applicants on April 22, 1991, and told them that he would not direct an inquiry under section 10 because a summary investigation of the matter lead him to believe that, in the circumstances, the *Competition Act* had not been contravened. That is the "decision" which is the subject of this section 28 application.

We are all of the view that this motion to quash must succeed. In the light of the decisions of the Supreme Court of Canada in *M.N.R. v. Coopers and Lybrand*, [1979] 1 S.C.R. 495, and in *Syndicat des employés de production du Québec et de l'Acadie v. Canadian Human Rights Commission*, [1989] 2 S.C.R. 879, no other conclusion can be reached but that the "decision" in question is purely administrative, not required by law to be made on a judicial or quasi judicial basis and, as a consequence, not reviewable under section 28 of the *Federal Court Act*.

The section 28 application will therefore be quashed.⁵

39 The Federal Court of Appeal has also explained that the Commissioner has broad discretion under sections 10 and 22 of the Act.⁶

40 Therefore, if we apply the tests recognized in case law for characterizing actions as judicial or quasi-judicial, and based on the teachings of the Federal Court of Appeal, we must conclude that the Commissioner's decision is an administrative act. The Act does not provide for a hearing, the decision does not affect rights or obligations, and the proceeding is not an adversarial one. Under the Act, the Commissioner is merely obliged to inform (on application) the persons concerned of the inquiry's status and notify the complainant and the Minister when the inquiry is discontinued (section 22). Furthermore, subsection 10(3) provides that the inquiry must be conducted in private.

41 The Supreme Court's decision in *Baker*⁷ is a landmark one in administrative law, since it explains the concept of procedural fairness and the factors determining its scope. The Court explained:

[T]he purpose of the participatory rights contained within the duty of procedural fairness is to ensure that administrative decisions are made using a fair and open procedure, appropriate to the decision being made and its statutory, institutional, and social context, with an opportunity for those affected by the decision to put forward their views and evidence fully and have them considered by the decision-maker. (paragraph 22)

42 The factors set out in this decision are the following: the nature of the decision being made and the process followed in making it; the nature of the statutory scheme and the terms of the statute pursuant to which the body operates; the importance of the decision to the individual or individuals affected; the legitimate expectations of the person challenging the decision; and the choices of procedure made by the body itself, particularly when the statute leaves to the decision-maker the ability to choose its own procedures, or when the body has an expertise in determining what procedures are appropriate in the circumstances (paragraphs 23-28).

43 This decision set several guidelines for analysing discretionary decisions:

Administrative law has traditionally approached the review of decisions classified as discretionary separately from those seen as involving the interpretation of rules of law. The rule has been that decisions classified as discretionary may only be reviewed on limited grounds such as the bad faith of decision-makers, the exercise of discretion for an improper purpose, and the use of irrelevant considerations: see, for example, *Maple Lodge Farms Ltd. v. Government of Canada*, [1982] 2 S.C.R. 2, at pp. 7-8; *Shell Canada Products Ltd. v. Vancouver (City)*, [1994] 1 S.C.R. 231. A general doctrine of "unreasonableness" has also sometimes been applied to discretionary decisions: *Associated Provincial Picture Houses, Ltd. v. Wednesbury Corporation*, [1948] 1 K.B. 223 (C.A.). In my opinion, these doctrines incorporate two central ideas — that discretionary decisions, like all other administrative decisions, must be made within the bounds of the jurisdiction conferred by the statute, but that considerable deference will be given to decision-makers by courts in reviewing the exercise of that discretion and determining the scope of the decision-maker's jurisdiction. These doctrines recognize that it is the intention of a legislature, when using statutory language that confers broad choices on administrative agencies, that courts should not lightly interfere with such decisions, and should give considerable respect to decision-makers when reviewing the manner in which discretion was exercised. However, discretion must still be exercised in a manner that is within a reasonable interpretation of the margin of manoeuvre contemplated by the legislature, in accordance with the principles of the rule of law (*Roncarelli v. Duplessis*, [1959] S.C.R. 121), in line with general principles of administrative

law governing the exercise of discretion, and consistent with the *Canadian Charter of Rights and Freedoms* (*Slaight Communications Inc. v. Davidson*, [1989] 1 S.C.R. 1038). (paragraph 53)

44 Thus, the courts must defer to discretionary decisions in the absence of bad faith on the part of decision makers, the exercise of discretion for an improper purpose, or the use of irrelevant considerations.

45 In the present case, the Commissioner's decision to discontinue the inquiry was discretionary, and the duty of fairness was minimal. The Act clearly grants wide discretion. The Commissioner enjoys a high degree of latitude in conducting an inquiry and, as confirmed in *Charette*, has broad discretion under subsection 22(4) to discontinue one. Subsection 10(2), meanwhile, merely creates a right to be informed of an inquiry's progress, upon request, and subsection 10(3) provides that inquiries are to be held in private.

46 In the case at bar, the applicant was unable to show that the Commissioner's decision was tainted by unlawfulness or bad faith or was based on irrelevant considerations.

47 Essentially, the applicant is accusing the Bureau of not having provided it with a copy of the external economist's report. Given the expressly confidential nature of inquiries under the Act, the Commissioner gave the applicant all of the documents he was in a position to disclose. I agree with the respondent that the July report contained the essential points of the external economist's findings (letter dated July 22, 2002, p. 13 of the respondent's record). Moreover, Mr. Dunleavy's affidavit indicated that he had cited all of the conclusions of the expert's report in the July report.⁸ Therefore, the applicant had sufficient information.

48 The introductory page of the report dated March 28, 2002, clearly stated that the document was "for discussion purposes", that the inquiry was ongoing, and that these preliminary conclusions were subject to change. It stated that certain practices could be construed as violating section 79. There was no mention of section 75. It is important to note that the report made conditional, non-committal statements, contained very few details, and was, on the whole, hardly conclusive. According to Mr. Dunleavy's affidavit, the proposed economic theory required further analysis to determine if the practices were anti-competitive.⁹ In my view, although certain statements at this time are favourable to the applicant, it is incorrect to say that these conclusions are definitive and that the inquiry was closed at that time. Moreover, the events that followed pointed instead to a continuation of the inquiry.

49 The applicant's assertion that the inquiry had been discontinued in March is therefore incorrect. The letter accompanying the July report very clearly explains that, at the April meeting, the applicant was informed that the first phase of the inquiry was over, that the inquiry would continue, and that the preliminary conclusions were subject to confirmation. Moreover, it was at that point that the applicant was notified that an external economist would be used to assess the evidence.

50 The applicant also accuses the Bureau of not having provided an opportunity to reply. Although he was under no obligation to do so, the Commissioner gave the parties an opportunity to make comments. The applicant refused to give a reply without being given access to the report. Since the Commissioner was under no obligation to disclose the report, the applicant did not have a valid reason for not making a reply.

51 The applicant had an opportunity to reply but chose not to take that opportunity. The July report set out a number of conclusions, but the Bureau was open to the parties' comments. According to Mr. Dunleavy's affidavit, the report addressed the latest developments in the inquiry.¹⁰ It is impossible to claim that the Bureau had formed a definitive opinion at that time, given the letter accompanying the report, which gave the applicant an opportunity to respond. Moreover, the exchange of correspondence between the parties shows that the Bureau offered on numerous occasions to meet with the applicant to discuss the conclusions. Since the applicant declined to attend meeting and filed no submissions, the report's conclusions were adopted in the Bureau's final decision, which was issued to the applicant in December.

52 Consequently, I cannot accept the applicant's argument that the Bureau had already made its decision before providing an opportunity to reply. The applicant was notified that an external economist had been used to assess the preliminary economic theories, not only in the letter dated May 31, 2002, but also at the meeting of April 3, 2002 (letter accompanying the July report).

53 With regard to the applicant's argument that the Bureau should have sought a second expert opinion, I am of the view that it too must fail. There was nothing stopping the applicant from hiring its own expert to refute the findings of the external economist.

54 It is also important to note that the Bureau's conduct was transparent to the extent possible under the Act. The applicant was given due and timely notice of the inquiry's progress, conclusions and use of an external economist.

55 The Bureau has very broad discretion in conducting inquiries and deciding whether or not to refer a case to the Competition Tribunal. In the case at bar, the Commissioner held a full and thorough inquiry into the applicant's complaint before concluding that the evidence did not show that the trade practices of the distributors and theatre operators violated the Act. There was no evidence that the inquiry had not been conducted correctly. The applicant's arguments to the effect that the Bureau acted unfairly are without merit. Moreover, the Commissioner was under no obligation to disclose the external economist's report to the applicant.

56 In my view, *Warner* does not apply in the case at bar. In that case, the dispute was between a licensee and distributors and concerned the granting of licences. In the present case, the dispute is instead between distributors and movie theatre operators over the acquisition of copies of films, not licences. However, in my view, the term "product" does, within the meaning of the Act, include licences, since to conclude otherwise would prevent the Act from having any application at all in the area of intellectual property.

57 For these reasons, the application for judicial review must be dismissed with costs, since the applicant has failed to show that the Court's intervention is warranted. There is no evidence supporting the conclusion that the Bureau acted unfairly or in bad faith. The Bureau acted in accordance with the Act. The applicant was informed of the inquiry's progress on several occasions. Additionally, the Commission gave the applicant the opportunity to comment following the July report. Unfortunately, despite having this opportunity, the applicant offered no reply.

Rouleau J.:

1 This is an appeal against the decision of Protonotary Morneau dated April 12, 2005. The case was heard before me on April 18, 2005, in Montréal.

2 Further to a motion to amend, the applicant had been permitted to add the following conclusions: set aside the decision dated December 12, 2002, and declare that section 32 does not apply to the present case. The applicant also sought the addition of a conclusion ordering that the external economist's report be disclosed to the applicant, but this conclusion was dismissed by the Protonotary.

3 For the reasons explained in the matter of the application for judicial review, the Protonotary's decision is well founded. The appeal is dismissed.

Footnotes

1 R.S.C. (1985), c. C-34.

2 (1997) (1997), 78 C.P.R. (3d) 321 (Competition Trib.), docket No. CT-97/3 (hereafter, *Warner*)

3 P. Garant, *Droit administratif*, 5th ed. Cowansville: Éditions Yvon Blais, 2004, p. 176 (references omitted).

4 *Canada (M.N.R.) v. Coopers and Lybrand*, [1979] 1 S.C.R. 495 at 504.

- 5 *Gauthier v. Canada (Director of Investigation and Research)*, [1991] F.C.J. No. 1002 (F.C.A.).
- 6 *Charette v. Canada (Commissioner of Competition)*, [2003] F.C.J. No. 1697 (F.C.A.).
- 7 *Baker v. Canada (Minister of Citizenship & Immigration)*, [1999] 2 S.C.R. 817 (S.C.C.)
- 8 Exhibit 5, paragraph 29, respondent's record.
- 9 Exhibit 3, paragraph 19, respondent's record.
- 10 Exhibit 4, paragraph 27, respondent's record

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Tab 7

2014 FC 989, 2014 CF 989
Federal Court

Denturist Group of Ontario v. Denturist Assn. of Canada

2014 CarswellNat 4191, 2014 CarswellNat 4971, 2014 FC 989,
2014 CF 989, 125 C.P.R. (4th) 321, 246 A.C.W.S. (3d) 440

Denturist Group of Ontario, Applicant and Denturist Association of Canada and Denturist Association of Ontario, Respondents

Michael D. Manson J.

Heard: September 22, 2014

Judgment: October 16, 2014

Docket: T-1421-13

Counsel: Mark Edward Davis, Monique Ashamalla, for Applicant

Colleen Spring Zimmerman, Michael Fraleigh, for Respondents

Subject: Civil Practice and Procedure; Intellectual Property; Property

Table of Authorities

Cases considered by *Michael D. Manson J.*:

Canadian Dental Assn. / Assoc. Dentaire Canadienne v. Ontario Dental Assistants Assn. (2013), 109 C.P.R. (4th) 327, (sub nom. *Ontario Dental Assistants Association v. Canadian Dental Association*) 429 F.T.R. 107 (Eng.), 2013 CF 266, 2013 CarswellNat 1207, 2013 FC 266, 2013 CarswellNat 596 (F.C.) — considered

CCH Canadian Ltd. v. Law Society of Upper Canada (2004), 236 D.L.R. (4th) 395, 317 N.R. 107, 30 C.P.R. (4th) 1, 2004 CSC 13, 2004 CarswellNat 446, 2004 CarswellNat 447, 2004 SCC 13, [2004] 1 S.C.R. 339, 247 F.T.R. 318 (note), [2004] 3 F.C.R. 241 at 244 (S.C.C.) — considered

J.L. De Ball Canada Inc. v. 421254 Ontario Ltd. (1999), 1999 CarswellNat 2761, 179 F.T.R. 231, 5 C.P.R. (4th) 352, 1999 CarswellNat 4389 (Fed. T.D.) — referred to

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s. 27(1) — referred to

Regulated Health Professions Act, 1991, S.O. 1991, c. 18

Generally — referred to

Trade-marks Act, R.S.C. 1985, c. T-13

- s. 2 — referred to
- s. 2 "certification mark" — considered
- s. 4(2) — referred to
- s. 7(a) — referred to
- s. 12(1)(b) — considered
- s. 17(1) — referred to
- s. 18(1) — referred to
- s. 18(1)(a) — considered
- s. 18(1)(b) — considered
- s. 20(1) — referred to
- s. 53.2 [en. 1993, c. 44, s. 234] — referred to

Tariffs considered:*Federal Courts Rules*, SOR/98-106

- Tariff B, Table, column IV — referred to

Regulations considered:*Denturism Act, 1991*, S.O. 1991, c. 25*Registration*, O. Reg. 833/93

- s. 1(1) — referred to

Authorities considered:

McKeown, John S., *Fox on Canadian Law of Copyright and Industrial Designs*, 4th ed. (Toronto, Ont.: Carswell, 2003)

Words and phrases considered:**denturism code**

In Ontario, every practicing denturist must use a common set of five-digit numerical procedure codes to identify the services they provide to patients when submitting claims to insurance companies or other third party payers [the Denturism Codes]. These codes correspond to the procedures performed by all licensed Ontario denturists.

The Denturism Codes were developed in the 1980s to be used with the same procedure categories and descriptions as similar Dental Codes used by dentists. The Denturism Codes signal to insurance companies and other third-party payers that a particular procedure has been performed by a denturist and not a dentist.

APPLICATION for declaratory, injunctive and monetary relief to invalidate registered copyrights and certification marks.

Michael D. Manson J.:

1 The Denturist Group of Ontario [DGO] seeks declaratory, injunctive and monetary relief against the Respondents, the Denturist Association of Canada [DAC] and the Denturist Association of Ontario [DAO], to invalidate the DAC's registered copyrights and certification mark, DD, TMA Registration 427,676.

I. Background

2 In Ontario, every practicing denturist must use a common set of five-digit numerical procedure codes to identify the services they provide to patients when submitting claims to insurance companies or other third party payers [the Denturism Codes]. These codes correspond to the procedures performed by all licensed Ontario denturists.

3 The Denturism Codes were developed in the 1980s to be used with the same procedure categories and descriptions as similar Dental Codes used by dentists. The Denturism Codes signal to insurance companies and other third-party payers that a particular procedure has been performed by a denturist and not a dentist.

4 In 1990/1991, the DAC began creating the DAC Procedure Codes. Around the same time, a former Vice President of the DAC authored the Fee Guide (Mr. Wojcicky). The Fee Guide consisted of five-digit numerical codes, a description of services to be associated with the numerical codes and possible fees to be charged. The Fee Guide has been regularly updated.

5 Mr. Wojcicky has assigned in writing to the DAC the ownership of these guides (the original guide having been created in 1999). The first application for the 2003 DAC Fee Code Guide was made in 2004 to the Copyright Office.

6 The core of the DAC Procedure Codes were also authored by Mr. Wojcicky. Certain co-authors are listed on each copyright registration. The authors have all assigned in writing their right, title and interest in the copyrighted works to the DAC.

7 The DAC Procedure Codes are licensed to its provincial associations (including the DAO), so they can choose which codes they would like to use in their fee guides. The DAO members are authorized to use and reproduce portions of their fee guides which incorporate the DAC Procedure Codes.

8 Proper use of the Denturism Codes is part of the curriculum of educational institutions such as George Brown College of Applied Arts and Technology [George Brown College].

9 The Canadian Life and Health Insurance Association [CLHIA] only recognize one set of Denturism Codes, and have stated to members of the DGO that they will not consider accommodating a second set of codes since it would be impractical.

10 The DAC currently owns the following Canadian Copyright Registrations:

a. Registration No. 1090851, entitled "The Denturist Association of Canada Procedure Codes 2011/Codes de Procedure 2011" [the "2011 DAC Procedure Codes"];

b. Registration No. 1104079, entitled "The Denturist Association of Canada Procedure Codes 2012/Codes de Procedure 2012" [the "2012 DAC Procedure Codes"];

c. Registration No. 1004080, entitled "The Denturist Association of Canada Procedure Codes 2013/Codes de Procedure 2013" [the "2013 DAC Procedure Codes" and collectively with above two registrations, the "DAC Procedure Codes"]; and

d. Registration No. 1018278, entitled "Denturist Association of Canada Fee Guide/Tarification des procedures" [the "DAC Fee Guide"].

11 When the *Regulated Health Professions Act*, 1991 was enacted in Ontario, denturists in the province began using the designation DD to connote "Diploma in Denturism", earned by successfully completing their diploma from an accredited educational institution and obtaining their license from the College of Denturists of Ontario [CDO].

12 On May 20, 1994, the DAC was granted Trademark Registration No. TMA 427,676 for the certification mark DD for "denturist services". The DAC's members, and those of its licensed provincial associations, may use the mark. Non-members may pay a fee to use it.

13 The DGO was founded in 2011 as a not-for-profit professional association of denturists licensed to practice in Ontario, in order to provide Ontario denturists with a cost-effective alternative organization to the DAO. Only licensed provincial professional associations such as the DAO are members of the DAC. The DGO is not.

14 The DGO created its first Denturist Procedure Code Book in 2012, and referred to numerous sources available on the internet for accessing the Denturism Codes. The DGO also published a second code book, in 2013.

15 The DAO and the DAC view the DGO as a competitor for membership fees, which are a significant source of income for both the DAC and the DAO.

16 In 2013, the Respondents began to pursue the DGO and its members for the payment of "non-member fees", claiming copyright in certain five-digit procedure codes from the DAC Fee Guide and the DAC Procedure Guide, in order to bill insurance companies and third party payers. The Respondents have also given the DGO's members notice that they must pay non-member fees for the right to use the professional designation "DD", given the DAC's exclusive trade mark rights in Canada under certification mark Registration TMA 427,676.

17 It was on February 12, 2013, that the Respondents first accused the DGO of using their procedure codes without authorization, and specifically referenced their usage in insurance claim forms and patient files.

18 The DAC sent letters to many if not all non-members of the DAO and the DGO's Board of Directors on July 5, 2013, as well as a follow-up letter on August 8, 2013, to inform the recipients that they were reproducing copyrighted material and engaging in unauthorized use of the DD certification mark. While the DGO's counsel requested that these letters be sent to them instead of individual members of the DGO, the DAC continued to correspond with individual members.

19 Approximately one month later, the Respondents sent more letters to DGO members, consisting of allegations of copyright and trademark infringement. In the DGO's opinion, this round of letters "unambiguously threatened DGO members both personally and with respect to their practices."

II. Summary of Evidence

20 The DGO's evidence comprises the affidavits of Robert Chodowiec, Harry Tzinis and Harry Orfanidis.

A. Robert Chodowiec

21 Mr. Chodowiec has been a practicing denturist since 1995, and was a member of the DAO from that time. In 2007, he began a 3 year term as a Board of Director member of the DAO, during which time he became unsatisfied with the DAO's dealings. In early 2011, he, Mr. Orfanidis and Mr. Protopapas incorporated the DGO. Mr. Chodowiec became President on March 4, 2011, at the first annual general meeting.

22 Mr. Chodowiec states that the DGO was created to give denturists in Ontario an affordable alternative to the DAO. Their use of the Fee and Procedural Codes is out of necessity, as it is not possible for the DGO to create its own codes. He maintains that the Procedure Codes are necessary to be able to charge all insurance companies for services rendered by denturists in Ontario.

23 Mr. Chodowiec testified to the form of the Denturism Codes (category name, sub-category name, procedure descriptions, five-digit numerical code, suggested pricing). To the best of his knowledge, the original code set was written by denturists in Alberta sometime in the 1980s. He asserts that assigning numbers for procedures does not require any skill or judgment.

24 With respect to the DD trademark, Mr. Chodowiec admits he has used it on business cards, signage and advertisements since he started practicing as a denturist. He believes it signifies a Diploma in Denturism, and that to his knowledge, all licensed Ontario denturists can use it.

25 Mr. Chodowiec points to article 44.01(b)(iii) in the CDO by-laws as evidence that DD is a professional designation and not a certification mark. It requires denturists to let the college know of use of any designation other than DD. In their Designation Policy, the College also states registered Denturists cannot use a professional designation that does not appear on the Register, and they must be approved by the CDO. All five CDO website examples of how to present your designation use the DD designation.

26 During his time at the DAO, Mr. Chodowiec maintains that he did not see documentation or other evidence that the DAC "permitted" members of the DAO to use the Procedure Codes or the DD certification mark.

27 When cross-examined about where his belief that DD could be used by anyone in the profession originated, Mr. Chodowiec said it was common knowledge and could not point to a particular source. Further, on the topic of the benefits of DAO membership, he states that his original belief was it provided only cheap malpractice coverage; he later understood that it provided a quarterly journal as well as access to DACnet software created for DAC, once it was developed. He insists that the Fee Guide and Procedure Codes were always available to denturists, regardless of membership.

28 Mr. Chodowiec admits in compiling the 2013 DGO Code Book, efforts were made to make it less similar to the DAO book, after receiving correspondence from DAC's counsel alleging infringement. Nevertheless, he maintains that he did not view the 2012 DAO Code Book while he was creating the draft for the 2013 DGO Fee Guide, and could not have done so since he never received that DAO Code Book (as he was no longer a member of that organization). Mr. Chodowiec maintains that he did the majority of the drafting for the 2012 and 2013 guides by using various documents and websites to compile the DGO Fee Guide.

B. Harry Tzinis

29 Harry Tzinis started practicing as a denturist in 1993 and subsequently became a member of the DAO. He became increasingly dissatisfied with the DAO's response to members' concerns and practice issues and decided to cancel his membership in 2012 and join the DGO.

30 Mr. Tzinis testifies that the Procedure Codes are used by all Ontario denturists, regardless of their membership and that they are essential to one's practice as a denturist. He considers the DAC's actions to be a direct attempt to prevent his patients from getting reimbursed by their insurance providers. He has received at least one phone call from a patient upset that their insurance claim was rejected.

31 Mr. Tzinis has used DD as a designation on signage and business cards since his graduation in 1993, as he understood it signified a Diploma in Denturism and that upon being licensed by the CDO, all Ontario denturists could use the DD designation.

32 Mr. Tzinis also stated that it is not possible to bill an insurer without the use of the codes, and he was not concerned that in ending his membership with the DAO he would have issues using the procedural or fee codes. He did, however, have an understanding that one was not allowed, as a DAO member, to hand your copy of the DAO Fee Guide to someone who was not a member.

33 Mr. Tzinis had no knowledge of how the DAC fee codes are/were created or maintained. At George Brown College, he was told the procedure codes are what a denturist uses for billing, and based on the advice of Mr. Orfanidis and Mr. Chodowiec, he continued using the codes as he always had when he stopped being a member of the DAO.

C. Harry Orfanidis

34 Mr. Orfanidis attended George Brown College and later became a teacher. He served the CDO as an elected counsel member for over 12 years, among other roles. At one point he served on the DAO.

35 Mr. Orfanidis states that he never saw evidence regarding the creation of the Procedure Codes or the Fee Guides. As well, he did not see any evidence during his time as a DAO board member to suggest that the DAC permitted the DAO and its members to use the codes. He states that the DGO created their guides to present an affordable alternative to the DAO's guides and member fees. Mr. Orfanidis maintained he has never suggested to anyone at the DAC or elsewhere that the DAC owns the Codes or the trademark DD. Despite allegations to the contrary, he maintains he has never acted in a non-collegial or unprofessional manner towards members of the DAO.

36 Mr. Orfanidis maintained during cross-examination that he was unaware of any discussions at the DAO board meetings, of which he was a part, concerning copyrighted material by the DAC. When a record of him asking for clarity on the copyright of the fee guide in the minutes for a DAO meeting dated April 17, 2009 was presented to him, he insisted he did not recall the meeting.

37 He maintains that he has no reason to think that the codes were anything other than public, but he took no steps to confirm that opinion. He maintains that a DAO Fee Guide was not consulted in creating the DGO Fee Guide.

38 The Respondents' evidence comprises the affidavits of Michael Vout, Nancy Tomkins and Frank Odorico.

D. Michael Vout

39 Michael Vout is the current president of the DAC and has held the position since September 20, 2008. He is also the past president of the DAO. He was licensed as a denturist in Canada in 1979 and has been involved with the profession in Canada (provincially and nationally), and internationally, as well as acting as chief examiner for the CDO.

40 Mr. Vout testified to the structure of the DAC as a National Association, whose members are Provincial Associations. It receives its revenue from the membership fees paid by Provincial Associations, as well as the licensing of the DAC Procedure Codes and subscriptions to its DACnet software system.

41 According to Mr. Vout, benefits of membership in a DAC Provincial Association, like the DAO, include use of the trademark DD, use of the DAC care claim form, use of the DAC Procedure Codes, enrolment in DACnet, receiving the quarterly professional journal "Denturism Canada", and representation by the DAC to federal, provincial and municipal governments. The Provincial Associations also get access to the DAC source guide to help produce and inform their own publications. Non-members can still get the benefit of using the DD trademark as well as access and reproduce the DAC Procedure Codes but only if they pay the requisite non-member fee (\$500). Mr. Vout admits that the current structure of the profession does not allow for more than one Provincial Association.

42 Mr. Vout testified to the content of the DAC Procedure Codes as a five-digit number associated with a specific procedure and a specific definition of the procedure provided. He states that the DAC Procedure Codes were developed in 1990/1991, at the same time as "unique numbers" were issued to members in the Provincial Associations to use for billing identification. Copyright has been claimed on the Fee Code Guides, authored by former DAC President Jaro Wojcicky, from the early 1990s. In 1999, after Mr. Wojcicky assigned ownership of the Guides to the DAC, they issued letters to the Provincial Associations confirming that they were licensed to use and reproduce the Fee Code Guides. This letter was also sent to insurance companies, regulatory bodies and government agencies. A number of software companies are also licensed to reproduce the Codes. Mr. Vout did not, however, produce evidence of license agreements with insurers, third-party payers or software companies.

43 Mr. Vout testified that the DAC Codes require constant resources, effort, expertise and experience to maintain. He also stated that coordinating the insurers and third-party payers is a difficult and ongoing effort. Mr. Vout claimed that a \$250,000

project was aimed, at least in part, at maintaining the DAC Codes from 2001 to 2011. However, he admitted that the Fee Code Guide had been largely completed in 2003, and on cross-examination he could not identify what amount of cost was attributable to the DAC Codes, as opposed to DACnet software and other services.

44 Mr. Vout admitted that prior to the DAC Fee and Procedural Codes, there existed different code sets used across Canada, but that insurers and third-party payers wanted a single set of codes and the Canadian Dental Association [CDA] would not permit denturists to use their codes any longer. Collaboration has persisted between the DAC and the CDA for the last 25 years, to coordinate the use of distinct code systems.

45 Mr. Vout states that the ownership of the DD mark has been maintained by the DAC since 1994, and that the DAC does not itself use the mark; they only license its use through their Provincial Associations. Mr. Vout testified that notice was sent to the CDO, in a letter dated December 13, 1995, regarding the registration of the DD mark. He also insists it is a well known mark in Canada that is distinctive of the DAC, but offered no further evidence in this regard

46 He insists that the mark is not descriptive of denturism services, but it indicates a level of quality of service. He lists the standards to be met as "the services must meet or exceed a baseline competency profile which is the equivalent of the national standard for the services established by the DGO". Further, "the baseline competency profile is the equivalent of the national standards established by the DAC through its Accreditation Process of Denturism Schools in Canada".

47 Mr. Vout insists that the DAC has made no comments to any insurance companies, third-party payers and software companies about the DGO Code Books, nor have they made statements aimed at discrediting the DGO or its members.

48 During cross-examination, Mr. Vout admitted that the DAC Codes are functional, and describes the process of assigning the five-digit codes in a largely mechanical fashion. He also admitted that authorship attributed in the copyright registrations for the DAC Procedure Codes are not as wide as included in the registrations and concedes that the other 4 authors listed really only gave approvals, without making significant contributions. He suggests that the codes that predated the DAC Codes were authored by the "forefathers of denturism", and admits that as of 1990, when the DAC codes were developed, the practice of using five-digit codes attached to descriptions for billing purposes was already established in the profession.

49 With respect to denturists using the DD trademark, Mr. Vout was unclear on the standards to be met in order to use the codes and the quality of services they signify, and had difficulty elaborating on the standards he mentioned in his affidavit. He admitted that the only standard controlled by the DAC is the \$500 non-member fee, or the higher membership fee, to be paid directly to the DAC; there is no practice review involved. Further, the only people to date who have chosen to pay the non-member fee did so after receiving the July 5, 2013 letter from DAC counsel alleging infringement. He was also unclear about the origin of the DD mark, and who first used it. He does admit that it was used as a designation as early as 1974. He also failed to produce any evidence of the public's perception of the DD mark.

50 With respect to the CDO bylaws mentioning the DD mark as the designation for a Diploma in Denturism, Mr. Vout admits the DAC has failed to write the CDO to have them correct their bylaws. When asked about the Provincial Associations knowledge about the mark and its use, he could not recall any education on standards for the mark, and admits that the evidence only shows a letter entitling the Provincial Associations to use the DD mark, with no necessity for demonstrated control over quality of the work.

51 When asked about the feasibility of the DGO developing its own code set, Mr. Vout admitted that it would be impractical with the current system. Further, he admits that the DAC is not able to decide matters of professional misconduct, that is the responsibility of the CDO, but he nevertheless chose to include suggestions of professional misconduct in the July 5, 2013 letter sent by the DAC to non-DAO denturists.

E. Nancy Tomkins

52 Nancy Tomkins has been the President of the DAO since September 1, 2010. She has been a licensed dentist and a member of the DAO since 1988. She has been published in her field several times and acts as an expert in her field, including on behalf of the CDO.

53 Ms. Tomkins testifies that the DAO was formed in 1982, when the Denturist Society of Ontario [DSO] and the Ontario Association of Denture Therapists [OADT] amalgamated. The DAO is a voluntary organization that represents the interests of, and provides support and services to its member denturists. As a member association of the DAC, the DAO's members are able to use the DAO Fee Guide produced by the DAO under license from the DAC for the reproduction of the Procedure Codes, and a preferred subscription rate for the DACnet software system. DAO members are also granted the right to reproduce the DAC Procedure Codes.

F. Frank Odorico

54 Mr. Odorico has been on the Board of Directors of the DAO since January 2012. He is First Vice President of the DAO.

55 Much of Mr. Odorico's affidavit addresses Mr. Orfanidis' issues with the DAO and affirms Ms. Tomkins' affidavit. He attests to Mr. Orfanidis and Mr. Chodowiec being active DAO members, who would be well aware of the relationship between the DAO and the DAC with regard to Fee Guides and Procedure Codes. Specifically, he believes these members knew that the DAC permitted the DAO to use the Procedure Codes and collaborated regarding Fee Guides and they also would have been generally familiar with the creation of the Procedure Codes, the Fee Guides and their use through the DAO. He did not, however, serve on the Board of Directors of the DAO with them at any time.

56 Mr. Odorico discussed automatic membership in the DAO while he was a student at George Brown College. Students were and are automatically given a student membership which bestows some benefits. Once graduated, the only requirement to maintain one's membership is to pass the CDO licensing exam and pay membership fees.

57 When Mr. Odorico was shown a portion of the DAO website which states "The Denturist professional designation is DD, which stands for Diploma in Denturism...", he answered only that it must have been a mistake on the website and that it must not have been updated correctly.

III. Issues

58 The issues are:

A. Does copyright subsist in the works covered by copyright Registration nos. 1090851, 1104079, 1104080 and 101828 and is DAC the owner of these copyrights?

B. Does copyright subsist in the five-digit numerical codes and corresponding description of denturist services contained within the DAC Procedure Codes and DAC Fee Guides?

C. Has the DGO infringed the copyright in the DAC Procedure Codes or DAC Fee Guides?

D. Is the DD certification mark TMA 427,676 valid, or is it invalid as being either or both:

i. Clearly descriptive of the persons who possess a Diploma in Denturism, contrary to paragraphs 12(1)(b) and 18(1)(a) of the *Trademarks Act*? or

ii. Non-distinctive, contrary to sections 2 and 18(1)(b) of the *Trademarks Act*?

E. If the DD certification mark is valid, has the DGO infringed the certification mark?

F. Did letters from the Respondents' counsel to individual members of the DGO constitute false and misleading statements contrary to subsections 7(a) and 53.2 of the *Trademarks Act*?

IV. Analysis

59 For the reasons that follow, I find that:

A. The DAC is the owner of the DAC Procedural Guides and Fee Guides and copyright does subsist in the copyright works covered by copyright Registration nos. 1090851, 1104079, 1104080 and 101828;

B. Copyright does not subsist in the five-digit numerical codes and corresponding description of denturist services contained within the DAC Procedures Codes and DAC fee Guides;

C. The DGO has not infringed the DAC's copyrights in their Procedure Codes or the DAO Fee Guides;

D. The evidence before me does not establish that the DD certification mark was clearly descriptive at the relevant date, namely the date of registration, May 20, 1994. However, I find that the DD certification mark was not distinctive of the DAC and its licensees as of the relevant date, the date these proceedings were commenced: August 22, 2013;

E. Accordingly, while DGO members have used the DD designation, it is not an infringement to do so;

F. I do not find that the letters from Respondents' counsel to individual members of the DGO constituted false and misleading statements contrary to subsection 7(a) and 53.2 of the Act.

60 As a preliminary matter, the DAC and the DAO object to the DGO's naming the DAO as a party to these proceedings, given that the relief sought by the DGO is effectively only against the DAC's copyright and trademark rights. I agree. The DAO is an unnecessary party to these proceedings, as the evidence before me does not support any relief being justified as against the DAO.

61 As well, the Respondents argue that the DGO is limited to what is plead with respect to any remedy sought. I agree that the Court should not rewrite, broaden or narrow a party's plea, but rather must give a purposive interpretation of the plea in determining what is to be adjudicated before the Court, in any proceeding.

62 In my opinion, while the Notice of Application may use some loose language, it is clear that the relief sought and facts pleaded properly embody subparagraphs 12(10)(b), 18(1)(a) and 18(1)(b) of the Act and the attacks on the DAC DD certification mark, based on descriptiveness and non-distinctiveness. I also find that given the issues of lack of a defined standard or an incorrect date of first use are not determinative of my decision in finding the DD certification mark invalid, the arguments made with respect to the sufficiency or lack of sufficiency of facts in the DGO's pleading these issues is not determinative of my decision.

63 Lack of control over use of the DD certification mark, resulting in non-distinctiveness, is in issue, and is supported in the Notice of Application, at paragraphs 21, 25-26 of the Application.

A. Does copyright subsist in the works covered by copyright Registration nos. 1090851, 1104079, 1104080 and 101828?

64 In order for copyrights to be valid, an author must have produced an original work that required his or her skill and judgment to create (*CCH Canadian Ltd. v. Law Society of Upper Canada*, [2004] 1 S.C.R. 339 (S.C.C.) at para 16 [*CCH*]). The requisite levels of skill and judgment must meet the low criteria of not being "so trivial that it could be characterized as a purely mechanical exercise" and exhibit some intellectual effort on the part of the author" (*CCH* at paras 16, 33-34).

65 A compilation can qualify for copyright protection so long as the author uses skill and judgment in the relevant sense in determining the arrangement of the work (*Fox on Canadian Law of Copyright and Industrial Designs*, 4th ed. Fox, at 7-16.1). If information has been arranged according to industry standards, the amount of skill, judgment, or labour exercised is minimal and does not meet the threshold of originality required (*Tele-Direct (Publications) Inc. v. American Business Information Inc.* (1997), 154 D.L.R. (4th) 328 (Fed. C.A.)).

66 The Respondents argued that the works in issue are not compilations, but are collective works, as attached by the named authors of each of the works, and should be viewed through that lens. I agree. The works in question are not compilations.

67 Firstly, while the DGO attacks authorship and ownership, I am satisfied on the facts before me that there is a sufficient chain of title to establish authorship of the DAC Fee Guide and Procedure Guide, and ownership of the Guides by the DAC, as claimed by the DAC.

68 However, I agree with the Applicant that written copyright assignments that post-date this application cannot form the basis of an action for infringement except in respect of infringing activities occurring after the date of the effective written assignments (*J.L. De Ball Canada Inc. v. 421254 Ontario Ltd.* (1999), 179 F.T.R. 231 (Fed. T.D.) at para 24).

69 Notwithstanding that, a number of copyright assignments post-date this application, and modifications may have been made by other individuals not named as authors of the works, there is insufficient evidence to support a finding that the authors as named did not contribute at least in part to the works at issue, or that they did not all validly assign the works to the DAC.

70 The parties agreed in arguments that on the facts before me, originality and skill and judgment are not in issue with respect to the contents of each of the works described in paragraph 10 of my reasons above, except for the five-digit numerical code and description of services associated with each of the code numbers. That being the case, I find that each of the works, as a whole, has sufficient original content that is capable of copyright protection, independent of the five-digit numerical codes and service description associated with each code, and therefore I find that the copyright registration for each work, as a whole, is valid, subject to the further determination of whether that portion of each work which includes the five-digit code and service description associated with each code, can be protected by copyright.

B. Does copyright subsist in the five-digit numerical codes and corresponding description of denturist services contained within the DAC Procedure Codes and DAC Fee Guides?

71 The answer to the question of whether copyright subsists in the five-digit codes and associated service descriptions rests in whether I find that sufficient originality, skill and judgment subsist in these works to attract valid copyright protection.

72 It is admitted by the DGO that if copyright subsists in the five-digit codes and associated descriptions of denturist services, the DGO has infringed the copyrights in the DAC works by having copied a substantial portion of these codes and associated descriptions.

73 The five-digit codes have, as their genesis, the need to distinguish denturist service fee codes from codes used by dentists in Canada, at the time the Denturist profession became recognized in Canada in 1974, and following.

74 There is no question that the five-digit codes are functional, as admitted by Mr. Vout on behalf of the Respondents during cross-examination. Further, the descriptions of the services associated with the codes are primarily functional in nature as well. Moreover, the five-digit codes and associated service descriptions are required by third party insurers and service providers in order for all denturists in Ontario to be paid for services rendered to patients. The codes, in their modified forms over time, have continuously been used since the 1970's until the present date by denturists as required, regardless of whether they are members of the DAC or the DAO. The insurance companies will only accept one set of codes to render payment to denturists, making the five-digit codes a professional standard and a necessity for denturists to be reimbursed by insurance companies and third party service providers.

75 I do not find that there is sufficient originality or skill and judgment to justify copyright subsisting in mere five-digit numerical codes and/or the functional descriptions of the denturist services associated with those codes.

C. Has the DGO infringed the copyright in the DAC Procedure Codes or DAC Fee Guides?

76 Given that copyright does not subsist in the five-digit codes or associated service descriptions, I find that in comparing the remaining original content in the DAC copyrighted works and the DGO Fee Guides and Procedural Guide, the DGO has not infringed the DAC works covered by Copyright Registration Nos. 1090851, 1104079, 1104080 and 101828.

D. Is the DD certification mark TMA 427,676 valid, or is it invalid, as being either clearly descriptive of the persons who possess a Diploma in Denturism, contrary to paragraphs 12(1)(b) and 18(1)(a) of the Trademarks Act, or non-distinctive, contrary to sections 2 and 18(1)(b) of the Trademarks Act?

77 The material date for determining whether the certification mark DD is clearly descriptive of persons who possess a Diploma in Denturism is the date the trademark was registered, on May 20, 1994.

78 The material date for considering whether the DD certification mark is distinctive is the date these proceedings were commenced, on August 22, 2013.

79 The DGO argues that the DD certification mark cannot be a valid trademark as it is and always has been clearly descriptive of the professional designation "Diploma in Denturism" used by all licensed denturists in Ontario, whether or not the denturists are members of the certification mark owner DAC, or its exclusive licensee in Ontario, DAO.

80 Section 2 of the Trademark Act defines certification mark as:

"certification mark"

« marque de certification »

"certification mark" means a mark that is used for the purpose of distinguishing or so as to distinguish wares or services that are of a defined standard with respect to

- (a) the character or quality of the wares or services,
- (b) the working conditions under which the wares have been produced or the services performed,
- (c) the class of persons by whom the wares have been produced or the services performed, or
- (d) the area within which the wares have been produced or the services performed, from wares or services that are not of that defined standard;

« marque de certification »

"certification mark"

« marque de certification » Marque employée pour distinguer, ou de façon à distinguer, les marchandises ou services qui sont d'une norme définie par rapport à ceux qui ne le sont pas, en ce qui concerne:

- a) soit la nature ou qualité des marchandises ou services;
- b) soit les conditions de travail dans lesquelles les marchandises ont été produites ou les services exécutés;
- c) soit la catégorie de personnes qui a produit les marchandises ou exécuté les services;
- d) soit la région à l'intérieur de laquelle les marchandises ont été produites ou les services exécutés.

81 As I stated in *Canadian Dental Assn. / Assoc. Dentaire Canadienne v. Ontario Dental Assistants Assn.*, 2013 FC 266 (F.C.) at paras 21-22:

21. That definition must be viewed in the context of the Act as a whole, in that, in order to be a valid mark, any certification mark must be:

- a) not clearly descriptive or deceptively misdescriptive of the wares or services in association with which it is used;
- b) able to distinguish the wares or services of a defined standard from wares and services of others (ie. be distinctive);
- c) not be used by the certification mark owner, but only by authorized licensees, in association with the performance of services, the production of wares or advertising the wares or services of those licensees, at the date relied upon by the owner as a date of first use;
- d) not likely to be confusing with any registered or previously applied for trade-mark, or previously used trade-mark or trade name, in Canada; and
- e) such that "use" must be in accordance with section 4 of the Act with respect to services, which requires that a trade-mark (and therefore certification mark) is deemed to be used with services if it is used or displayed in the performance or advertising of these services.

22. There is nothing in the Act that precludes a valid certification mark from being registered for a professional designation, if that mark meets the criteria set out above, and to the extent the DAC relies upon previous case law to support an opposite finding, in my opinion such reliance is incorrect. In fact, counsel for both parties agreed during the hearing that a correct reading of the relevant sections of the Act would, in the right circumstances, allow for a valid registration of a professional association name or acronym, provided that the name or acronym meets the criteria of the relevant provisions of the Act as discussed above.

82 The DGO also argues that the trademark owner the DAC, did not have a valid certification mark for DD, given that no meaningful standards were ever set by the DAC for certifying individual members. It is agreed by the parties that the three criteria for the standards for members to be able to use the DD designation and be certified are:

- a) the individual must be a graduate from George Brown College;
- b) the individual must be licensed by the College of Denturists of Ontario; and
- c) the individual must join DAO and pay an annual membership fee, or pay a non-member fee of \$500.

83 While the DGO argues that given the first two criteria are not set by the DAC as the certification mark owner, resulting in only an annual membership fee being the criteria the DAC uses to certify members so as to qualify to use the DD designation, I do not agree.

84 The DAC regulates members by ensuring all three criteria are met and accordingly, I find that a viable standard has been set by the DAC for use of the DD certification mark by members.

85 The first question I must answer is whether the DD certification mark was clearly descriptive of persons who possessed a diploma in denturism in May, 1994. Given that there is no evidence before me to show that, as of May 1994, DD was clearly descriptive of either persons who had a diploma in denturism or of denturism services provided to the public, I do not find this ground of the application can succeed.

86 The second question I need to answer is whether the DD certification mark was non-distinctive, as of the date of filing of this proceeding on August 22, 2013.

87 The evidence shows the following:

- a) While the acronym "DT" for Denture Therapists was used prior to 1991 as the designation for licensed denturists in Ontario, DD was used thereafter as the designation for licensed denturists;
- b) The common impression in the profession of denturism is that DD is the professional designation for all graduate denturists from accredited programs regardless of their membership in a professional association like the DAO or the DGO;
- c) The CDO has stated that the unfettered use of the letters DD have become the public face of and for the profession for many years;
- d) The CDO's Advertising and Professional Designation Policy indicates that DD means "Denturists Diploma";
- e) While as much as 90% of denturists in Ontario may have been members of the DAO in 2013, there is evidence that between 2011 and 2013, at least some members who were licensed denturists were not members of the DAC or the DAO and nevertheless used the DD designation to indicate that they were licensed denturists with a diploma in denturism from George Brown College, and at least 50 or more denturists prior to the proceeding were not members, yet used the DD designation;
- f) Between 1984 and 1990, about two-thirds of the profession with diplomas in denturism were not members of the DAO;
- g) The DAO itself, on its website, states that DD is the professional designation for Diploma in Denturism for denturists.

88 I find that based on the evidence before me, the DD certification mark was not distinctive of the DAC's services as of May, 2013, and that Registration TMA 427,676 is therefore invalid.

E. Did letters from the Respondents' counsel to individual members of the DGO constitute false and misleading statements contrary to subsections 7(a) and 53.2 of the Trademarks Act?

89 The DGO argues that letters to individual DGO members which indicated that by using the DGO Procedure Codes and the DD designation without being members of the DAO, the individuals were: (1) infringing the DAC's copyright in the fee codes and associated services descriptions; (2) were infringing the DAC's exclusive trademark rights in the DD certification mark; and (3) may be found guilty of professional misconduct, despite knowing at the time that only the CDO could and can adjudicate on issues of professional misconduct.

90 These letters were sent to individual DGO members, despite DGO's counsel having previously advised the Respondents that all communications concerning this dispute be directed to counsel for the DGO.

91 While DGO's counsel represented the DGO, it was not clear that they had the authority to represent individual members at the time the letters were sent. The allegations of copyright and trademark infringement were not in bad faith and clearly contemplated possible litigation based on previously registered DAC trademark rights and a belief by the DAC that valid copyright subsisted in the DAC Fee Guides and Procedural Guides.

92 The threat of professional misconduct was, however, inappropriate, given that the DAC and the DAO had no authority to threaten any sanction under the exclusive jurisdiction of the CDO, and the threat was knowingly and wilfully made by the DAC. The Court does not condone or approve of misplaced or unsubstantiated threats being made by any party, particularly when knowingly made without any legal authority or right to do so.

93 Accordingly, while I do not consider the language used in the DAC letters to DGO members to reach the threshold of contravening section 7(a) and 53.2 of the Trademarks Act, I do agree that the Respondents should be enjoined from making any allegations, threatening or otherwise, of professional misconduct by DGO members in respect of alleged copyright or trademark infringement in this proceeding.

V. Damages

94 Given the split success in this matter and the difficult issues raised for the Court's consideration, I do not find that there is any call for aggravated punitive or exemplary damages based on the evidence before me.

95 However, the DGO is successful in having the Court declare the DAC's claims for copyright infringement and trademark infringement are not justified and must fail, and that Trademark Registration TMA 427,676 is invalid, as being non-distinctive of the DAC or its licensees and should be struck from the Register of Trademarks. I award damages to DGO in the amount of \$10,000.

96 There is no need for injunctive relief, given that the basis for the DAC or the DAO letters alleging copyright or trademark infringement is now moot and there would be no justification to send any such letters hereafter.

97 I award costs to the DGO under Tariff B column IV.

Judgment

THIS COURT'S JUDGMENT is that:

1. The application to strike Canadian Copyright Registration Nos. 1090851, 1104079, 1104080 and 1018278, is dismissed;
2. Copyright does not subsist in the Procedure Codes associated service descriptions used by denturists in Ontario;
3. The Denturist Group of Ontario has not infringed the copyright owned by DAC in the DAC Procedure Guides or Fee Guides which are the works covered by Canadian Copyright Registration Nos. 1090851, 1104079, 1104080 and 1018278;
4. Canadian Trademark Registration No. TMA 427,676 for the certification mark DD is invalid for non-distinctiveness and should be struck from the Register of Trademarks;
5. The Respondent DAC and its officers, directors, agents, employees and representatives are enjoined from, directly or indirectly, alleging that the DGO, its directors and members have committed professional misconduct by using the Procedure Codes in the ordinary course of providing denturist services in Ontario, including, but not limited to, using the Procedure Codes in insurance claim forms, using them with third party payers, and using them to identify services in patient files;
6. Damages to the Applicant in the amount of \$10,000.00 payable forthwith;
7. Costs to the Applicant under Tariff B, column IV, together with pre- and post-judgment interest of 3%.

Application granted in part.

Appendix A

Copyright Act, RSC 1985, c C-42

Infringement Generally

3(1) For the purposes of this Act "copyright", in relation to a work, means the sole right to produce or reproduce the work or any substantial part thereof in any material form whatever, to perform the work or any substantial part thereof in public or, if the work is unpublished, to publish the work or any substantial part thereof, and includes the sole right:

- (a) to produce, reproduce, perform or publish any translation of the work,
- (b) in the case of a dramatic work, to convert it into a novel or other non-dramatic work
- (c) in the case of a novel or other non-dramatic work, or of an artistic work, to convert it into a dramatic work, by way of performance in public or otherwise

(d) in the case of a literary, dramatic or musical work, to make any sound recording, cinematograph film or other contrivance by means of which the work may be mechanically reproduced or performed

(e) in the case of any literary, dramatic, musical or artistic work, to reproduce, adapt and publicly present the work as a cinematographic work

(f) in the case of any literary, dramatic, musical or artistic work, to communicate the work to the public by telecommunication

(g) to present at a public exhibition, for a purpose other than sale or hire, an artistic work created after June 7, 1988, other than a map, chart or plan

(h) in the case of a computer program that can be reproduced in the ordinary course of its use, other than by a reproduction during its execution in conjunction with a machine, device or computer, to rent out the computer program

(i) in the case of a musical work, to rent out a sound recording in which the work is embodied, and

(j) in the case of a work that is in the form of a tangible object, to sell or otherwise transfer ownership of the tangible object, as long as that ownership has never previously been transferred in or outside Canada with the authorization of the copyright owner and to authorize any such acts.

27(1) It is an infringement of copyright for any person to do, without the consent of the owner of the copyright, anything that by this Act only the owner of the copyright has the right to do

Trade-marks Act, RSC 1985, c T-13

2. "certification mark" means a mark that is used for the purpose of distinguishing or so as to distinguish wares or services that are of a defined standard with respect to:

(a) the character of quality of the wares or services,

(b) the working conditions under which the wares have been produced or the services performed

(c) the class of persons by whom the wares have been produced or the services performed

(d) the area within which the wares have been produced or the services performed From wares or services that are not of that defined standard

4(2) A trade-mark is deemed to be used in association with services if it is used or displayed in the performance or advertising of those services

12(1) Subject to section 13, a trade-mark is registrable if it is not

(b) whether depicted, written or sounded, either clearly descriptive or deceptively misdescriptive in the English or French language of the character or quality of the wares or services in association with which it is used or proposed to be used or of the conditions of or the persons employed in their production or of their place of origin

Effect of Registration in relation to previous use, etc.

17(1) No application for registration of a trade-mark that has been advertised in accordance with section 37 shall be refused and no registration of a trade-mark shall be expunged or amended or held invalid on the ground of any previous use or making known of a confusing trade-mark or trade-name by a person other than the DGO for that registration or his predecessor in title, except at the instance of that other person or his successor in title, and the burden lies on that

other person or his successor to establish that he had not abandoned the confusing trade-mark or trade-name at the date of advertisement of the DGO's application

When registration invalid

18(1). The registration of a trade-mark is invalid if

- (a) the trade-mark was not registrable at the date of registration
- (b) the trade-mark is not distinctive at the time proceedings bringing the validity of the registration into question are commenced

Infringement

20(1) The right of the owner of a registered trade-mark to its exclusive use shall be deemed to be infringed by a person not entitled to its use under this Act who sells, distributes or advertises wares or services in association with a confusing trade-mark or trade-name, but no registration of a trade-mark prevents a person from making

- (a) any bona fide use of his personal name as a trade-name, or
- (b) any bona fide use, other than as a trade-mark
 - (i) of the geographical name of his place of business, or
 - (ii) of any accurate description of the character or quality of his wares or services

in such a manner as is not likely to have the effect of depreciating the value of the goodwill attaching to the trade-mark

The Denturism Act, Registration Regulations, O Reg 833/93

1(1) The following are non-exemptible registration requirements for a certificate of registration:

1. The DGO must have a diploma in denture therapy or denturism from,
 - i. George Brown College of Applied Arts and Technology,
 - ii. any other institution that, in the opinion of the Registration Committee, issues an equivalent diploma or degree.
2. The DGO must have successfully completed the qualifying examination in denturism set by the Council within 12 months of the application.
3. The DGO must be a Canadian citizen or a permanent resident of Canada or have an authorization under the Immigration and Refugee Protection Act (Canada) consistent with his or her proposed certificate of registration. O. Reg. 833/93, s. 1 (1); O. Reg. 404/94, s. 1 (1); O. Reg. 225/03, s. 1 (1); O. Reg. 23/12, s. 1 (1).

(2) For the purposes of subparagraph ii of paragraph 1 of subsection (1), a diploma or degree is equivalent if it offers courses in the areas listed in the Schedule. O. Reg. 833/93, s. 1 (2).

Tab 8

2013 FC 1043, 2013 CF 1043
Federal Court

Distrimedic Inc. v. Dispill Inc.

2013 CarswellNat 3663, 2013 CarswellNat 5722, 2013 FC 1043, 2013 CF 1043, [2013]
F.C.J. No. 1093, 119 C.P.R. (4th) 1, 237 A.C.W.S. (3d) 472, 440 F.T.R. 209 (Eng.)

**Distrimedic Inc., Plaintiff and Dispill Inc.
and Emballages Richards Inc., Defendants**

Emballages Richards Inc., Plaintiff by Counterclaim and Distrimedic Inc., Robert Poirier, Claude Filiatrault, Distrimedic Canada Inc. and 9268-2244 Quebec Inc., Defendants to the Counterclaim

Yves de Montigny J.

Heard: March 25-28, 2013; April 2-5, 8-12, 15-16, 2013

Judgment: October 15, 2013^{*}

Docket: T-1591-05

Counsel: George R. Locke, Madeleine Lamothe-Samson, for Plaintiff / Defendants to Counterclaim
Dale E. Schlosser, Joanna Vatavu, for Defendants / Plaintiff to Counterclaim

Subject: Intellectual Property; Civil Practice and Procedure; Corporate and Commercial

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s. 30(10) — considered

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s. 52(1.1)(a) [en. 1999, c. 2, s. 12(1)] — considered

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s. 3(1) — considered

s. 5(1) — considered

s. 13(1) — considered

s. 13(4) — considered

s. 27(1) — considered

s. 34.1(1) [en. 1997, c. 24, s. 20(1)] — considered

s. 35 — considered

s. 36(1) — referred to

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s. 28.3 [en. 1993, c. 15, s. 33] — considered

s. 43(2) — considered

s. 48 — considered

s. 48(1) — considered

s. 48(2) — considered

s. 60(2) — referred to

Trade-marks Act, R.S.C. 1985, c. T-13

Generally — referred to

s. 2 "trade-mark" — considered

s. 2 "trade-mark" (a) — considered

s. 4 — considered

s. 4(1) — considered

s. 7(b) — referred to

Rules considered:

Patent Rules, SOR/96-423

Generally — referred to

R. 44 — considered

Forms considered:

Patent Rules, SOR/96-423

Sched. 1, Form 2 — referred to

Regulations considered:

Pharmacie, Loi sur la, L.R.Q., c. P-10

Règlement sur l'étiquetage des médicaments et des poisons, L.R.Q., 1981, c. P-10, r. 15

art. 2.01 — considered

Authorities considered:

Bryant, Alan W., Sidney N. Lederman, Michelle K. Fuerst, *Sopinka, Lederman & Bryant: The Law of Evidence in Canada*, 3rd ed. (Toronto: LexisNexis, 2009)

Fleming, John, *The Law of Torts*, 4th ed. (Sydney: The Law Book Co., 1971)

McKeown, John S., *Fox on Canadian Law of Copyright and Industrial Designs*, 4th ed. (Toronto: Carswell, 2003)

Tamaro, Normand, *The 2012 Annotated Copyright Act*, 4th ed. (Toronto: Carswell, 2011)

ACTION by way of counterclaim, for relief for patent infringement, copyright infringement, breach of s. 52 of *Competition Act* and passing off.

Yves de Montigny J.:

I. Overview

1 Distrimed Inc. commenced the present proceeding on September 26, 2005, with the filing of a Statement of Claim seeking a declaration of non-infringement of Canadian Patent No. 2,207,045 (the '045 Patent), owned by Emballages Richards Inc. (hereinafter "Richards"), pursuant to subsection 60(2) of the *Patent Act*, RSC 1985, c P-4 (*Patent Act*). The product for which the declaration was sought is a kit for the manufacture of a set of individual pill containers. Distrimed Inc. amended its Statement of Claim on November 3, 2005.

2 On or about December 1, 2005, Richards filed a Statement of Defence and Counterclaim against Distrimed Inc. and various related parties (Robert Poirier, Claude Filiatrault, Distrimed Inc. and 9268-2244 Quebec Inc.). Each of these Defendants to the Counterclaim is represented by the same counsel and will hereinafter collectively be referred to as "Distrimed". The Statement of Defence and Counterclaim was amended on November 27, 2006, on January 29, 2007, and again on September

27, 2010. Shortly before filing its original Statement of Defence and Counterclaim, Richards filed a document purporting to be a disclaimer under section 48 of the *Patent Act* in relation to some of the claims of the '045 Patent.

3 On February 12, 2010, Distrimedic Inc. discontinued its original action, paying costs assessed in the amount of \$11,908.82 to Richards as a result. Nevertheless, the counterclaim continued.

4 In Distrimedic's view, the Three Times Amended Statement of Defence and Counterclaim significantly expanded the scope of the proceeding, adding many new allegations and legal claims and joining many other companies and people affiliated with Distrimedic. In addition to alleging infringement of the '045 Patent (and thus covering precisely the subject-matter of Distrimedic's action), Richards' Counterclaim added several new issues, namely the infringement of the disclaimed claims, the validity of the disclaimer, copyright infringement, several issues related to trade-mark rights alleged to be held by Richards, breach of the *Competition Act*, RSC 1985, c C-34 and damages claimed in relation to the various allegedly infringed rights. In Richards' view, it was necessary to add the related Defendants as they have in effect rendered Distrimedic Inc. judgment-proof through their corporate arrangement of the various related parties.

5 The hearing of this file took place from March 25 to April 16, 2013, and the parties filed written representations on April 15 and 16, respectively. Both parties made submissions in connection with a list of issues established in an Order of Prothonotary Morneau dated September 28, 2011, following a pre-trial conference between the parties.

6 For the reasons that follow, the Court finds that Richards' counterclaim should be dismissed.

II. Factual Background

a) *The Parties*

7 As described by Richards and in the parties' Agreed Statement of Facts, this case has its genesis in an idea of Mr. Michel Bouthiette, a dentist by training and the named inventor of the patent in suit.

8 Mr. Bouthiette, who was also active in the retirement home business, had an idea for a system that would improve the administration of medication to a patient over a given period of time, such as a week. After applying for a United States patent in 1996, Mr. Bouthiette filed a Canadian patent application claiming priority from his United States filing, and the '045 Patent issued on June 1, 1999.

9 Bouthiette incorporated Dispill Inc. (Dispill) to sell the components of his pill dispensing and storage system on November 11, 1997; he operated as a sole proprietor until he exchanged his business and its assets as consideration for shares of Dispill in 1998.

10 Dispill rented office space from La Société d'Impression Filiatrault & Poirier (La Société), a corporation owned by Defendants Robert Poirier and Claude Filiatrault, and La Société purchased a 50% shareholding in Dispill for \$100,000. From 1998 until September 2002, Filiatrault and Poirier were both employees and, through La Société, shareholders of Dispill.

11 In 2002, a dispute arose and Filiatrault and Bouthiette invoked a shotgun clause in the Dispill Shareholders Agreement; however, Bouthiette prevailed and the relationship ended with a numbered company owned by Bouthiette purchasing La Société's shares in Dispill.

12 Although subject to a two-year non-compete agreement from September 3, 2002 to September 3, 2004, Filiatrault and Poirier met with patent agents during that time to discuss whether they might develop a pill dispenser product in order to compete with Dispill, upon expiry of the non-compete agreement, without infringing the '045 Patent.

13 Distrimedic Inc. was incorporated on September 7, 2004, and, by 2005, Filiatrault and Poirier were ready to compete with Dispill. Distrimedic Inc. does not have employees on its payroll as it shares resources, including employees and sales representatives, with two other companies owned and operated by Filiatrault and Poirier: La Société, which offers printing services and printed products to pharmacies, pharmaceutical laboratories, insurance companies and others; and Emballages

Alpha Inc. (Alpha), which sells vials for medicines to pharmacists. The two companies bill Distrimedic Inc. for salaries and commissions accordingly.

14 In a series of transactions, Richards, a manufacturer and distributor of packaging products incorporated under the laws of Canada, acquired Dispill from Bouthiette in July 2005 and Dispill was subsequently dissolved. On July 29, 2005, prior to dissolution, Dispill assigned the '045 Patent to Richards.

15 On September 16, 2005, Richards had its counsel send a letter to Filiatrault and Poirier, care of La Société, alleging that their efforts to market Distrimedic Inc.'s competing pill dispenser system infringed Richards' exclusive patent and trademark rights.

16 In an attempt to settle the patent infringement issue, Distrimedic Inc. commenced its action seeking a declaration of non-infringement of the '045 Patent on September 26, 2005. An Amended Statement of Claim was filed November 3, 2005.

17 On November 8, 2005, after being served with Distrimedic Inc.'s Statement of Claim but prior to entering a defence, Richards filed a disclaimer in relation to a number of claims in its '045 Patent (the Disclaimer).

18 Richards then filed its Statement of Defence and Counterclaim, which it subsequently amended three times as described above. Also described above, Distrimedic Inc. discontinued its original action on February 12, 2010, and paid Richards costs assessed at \$11,908.82.

19 Following the filing of these proceedings, in October 2010, Filiatrault and Poirier entered into an agreement in which Filiatrault repurchased all of Poirier's shares in all of the Quebec companies (La Société, Distrimedic Inc., Alpha and 9120-2994, an investment company). In exchange, Poirier repurchased all of Filiatrault's shares in Distrimedic France and another company, Rx-V. Distrimedic Canada Inc., which was incorporated for sales of Distrimedic products in provinces other than Quebec and one of the original Defendants to the Counterclaim, never did business and was dissolved in 2008. On September 1, 2012, Alpha and La Société amalgamated to form 9268-2244 Quebec Inc. To reflect these transactions, the syle of cause has been amended accordingly.

b) The Patent at Issue

20 The '045 Patent in dispute in this action, registered in connection with Richards' product, is entitled "Kit and Process for the Manufacture of a Set of Individual Pill Containers". It was filed on May 21, 1997, claiming priority on a US provisional patent application filed on July 22, 1996. The '045 Patent was opened to the public on June 21, 1997 and issued on June 1, 1999. It will expire on May 21, 2017.

21 The '045 Patent, as originally issued, had 28 claims, with Claims 1, 11, 15, 22, 26 and 28 being independent and the remainder dependent, either directly or indirectly, on one of the independent claims. Richards filed a disclaimer on November 8, 2005 in relation to a number of claims of the '045 Patent, namely Claims 15 to 21. The disclaimer amended Claims 15 and 17 to 21 and removed Claim 16 entirely. More will be said about the disclaimer below.

22 The '045 Patent describes a system for preparing a pill dispenser. The system comprises a tray having a number of evenly spaced apart recesses that is used to support a container-defining sheet made of clear plastic and itself having a corresponding number of evenly spaced apart cavities embossed therein. The idea is to make a series of containers for holding pills to be taken four times per day (breakfast, lunch, dinner, and bedtime) over seven days.

23 Once filled as prescribed, the container-defining sheet is sealed by a self-adhesive container-sealing sheet upon which has been printed required information about the prescription such as the names of the patient and the pharmacist, the date, and the medications in each container. The container-sealing sheet is aligned with the container-defining sheet by means of two upwardly projecting protuberances on the top surface of the tray that engage corresponding pairs of holes in both the container-sealing sheet and the container-defining sheet. The alignment of the sheets aligns the perforations thereon, permitting each

container to be readily separated from the others. Once the alignment has been achieved, an adhesive cover on the back of the container-sealing sheet can be removed and the sheet stuck over the container-defining sheet.

24 The first page of the '045 Patent provides a brief description of the prior art over which it claims to provide an improvement:

To prepare a set of individual pill containers for use by a patient, it has already been suggested to use a sheet of plastic material in which a plurality of recesses are molded. Each of these recesses defines a small upwardly opened container that can be filled with pills. After filling, all the containers are closed by means of a plastic sealing sheet on which can be printed all the desirable indications like the patient's name, the date and hour of administration, etc.... The sealing sheet is applied onto the container-defining sheet and thermo-sealed onto same. As can be understood, the indications are printed and formatted onto the sealing sheet so that each group of information referring to a given container be positioned in regard to the said container. Tearing lines are provided on both the container-defining sheet and the sealing sheet to allow for easy separation of the individual pill containers.

This assembly is efficient. However, it has some drawbacks. More particularly, it is very difficult and time consuming to ensure correct positioning of the preprinted sealing sheet on top of the containers. As can be understood, incorrect positioning of the sealing sheet will make the pill containers difficult to separate. Also, thermo sealing is not economical, as it calls for thermo-sealing equipment.

25 The US Patent No. 3,780,856 (the "Braverman Patent"), reproduced in the Appendix to these Reasons, was published on December 25, 1973. It is thus citable as prior art against the '045 Patent for the purposes of both anticipation and obviousness. It describes a pill dispensing device similar in many ways with the pill dispensing system described in the '045 Patent. As stated by the Patent Office in its December 17, 1998 Office Action during prosecution of the application that led to the '045 Patent:

The patent to Braverman discloses a kit and method for the manufacture of a set of individual pill containers. The kit is comprised of a container-defining sheet (100) made of plastic which has a top surface with a given number of evenly spaced apart cavities embossed therein. These cavities are shown to be in regularly spaced apart rows and columns. Each cavity is upwardly opened and defines a container (120). Each container is surrounded by a flange (122) that has a central dotted line (117,118) punched therein. The kit also has a recessed support (200) with a top surface provided with a number of recesses (212) at least equal to the number of cavities in the container-defining sheet. A container-sealing sheet (122) is provided. This sheet has a top surface and a bottom surface and is shaped and sized to cover at least all of the containers and surrounding flanges. The bottom surface of the container-sealing sheet has bands (126) covered with a self-adhesive material that are shaped and sized to exactly correspond to and fit over the flanges. The bands are covered until use by a protective peelable covering (128,129) and have central tearing lines (170,172) of their own. Positioning means provided on at least the top surface of the container-defining sheet and on the container-sealing sheet (the edges of the sheets 196) to ensure that, in use, the bands covered with self-adhesive material and their tearing lines be in exact superposition on top of the flanges and the dotted lines of the container-defining sheet. The patent to Braverman also discloses printing information on the container-sealing sheet (see column 4, lines 32 to 37, for example). The number of recesses is not considered patentable subject matter.

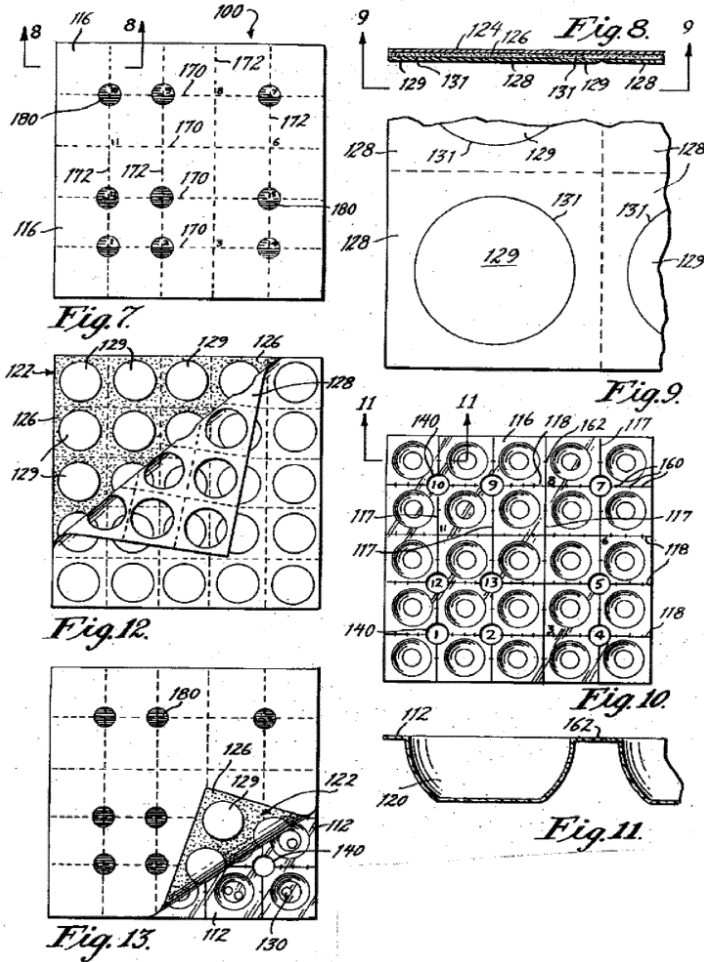
Joint Book of Documents, No 144.

The figures found in the Braverman Patent and referred to in the above quote are reproduced below:

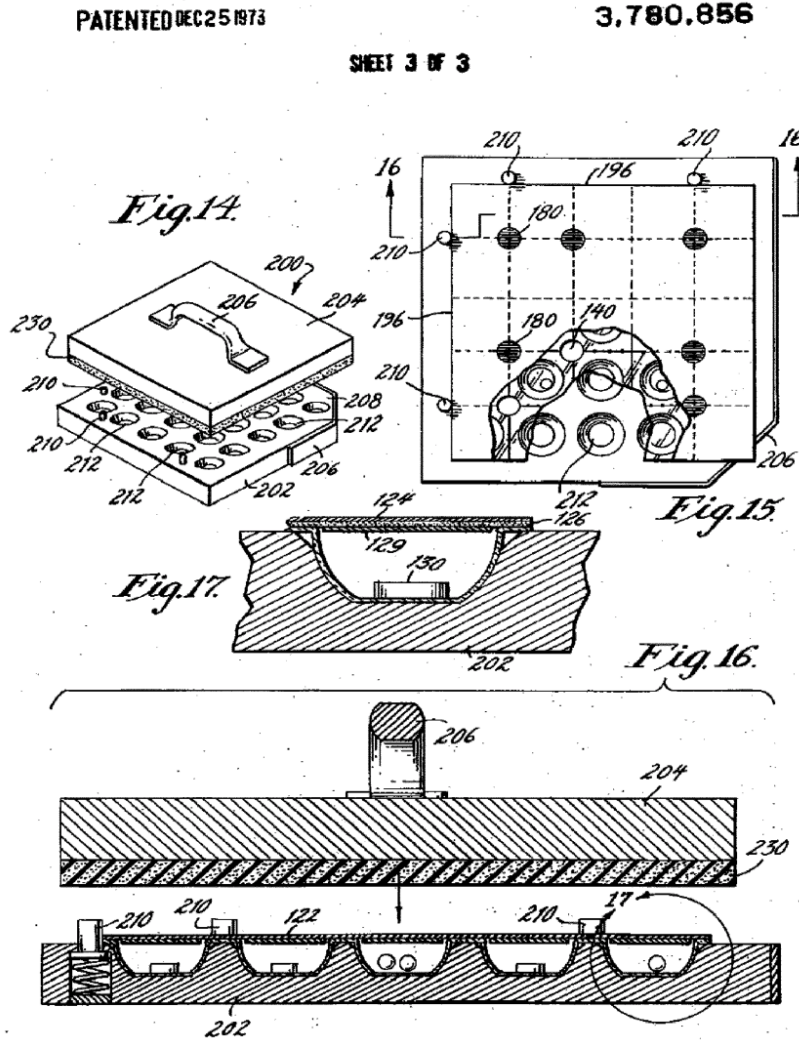
PATENTED DEC 25 1973

3,780,856

SHEET 2 OF 3



Graphic P-12



Graphic P-13

26 It is not necessary, for the purposes of this proceeding, to consider all of the elements of the claims found in the '045 Patent. The key element of Claim 1 (including Claims 2 to 10 dependent thereon), 11 (including Claims 12 to 14 dependent thereon), 15 (including Claims 17 to 21 dependent thereon) and 22 (including Claims 23 to 25 dependent thereon) reads as follows:

d) positioning means provided on at least the top surface of the container-defining sheet and on the container-sealing sheet to ensure that, in use, after the container-defining-sheet is fitted onto the recessed support, the paper covering is peeled off from the bands of the container-sealing sheet and said container-sealing sheet is positioned on top of the top surface of the container-defining sheet, the bands covered with a self-adhesive material and their tearing lines be in exact superposition on top of the flanges and the dotted lines of the container-defining sheet,

wherein the positioning means comprises at least one upwardly projecting protuberance provided on the top surface of the recessed support, at least one hole provided into the container-defining sheet and at least one other hole provided in the container-sealing sheet, said at least one hole and one other hole being sized and positioned to correspond to and be engaged by said protuberance.

27 Claim 15, as disclaimed, reads as follows (with amendments introduced by disclaimer indicated in bold underlining):

d) positioning means provided on at least the top surface of the container-defining sheet and on the container-sealing sheet to ensure that, in use, after the container-defining sheet is fitted onto the recessed support, the container-sealing sheet is properly positioned on top of the top surface of the container-defining sheet, with its tearing lines in exact superposition on top of the dotted lines of the container-defining sheet,

wherein the positioning means comprises at least one upwardly projecting protuberance provided on the top surface of the recessed support **and engaging means** provided **on** the container-defining sheet and **other engaging means** provided **on** the container-sealing sheet, said **engaging means** and **other engaging means** being sized and positioned to correspond to and be engaged by said protuberance.

28 With regard to the remaining claims (Claims 26 to 28), construction of the claims is not necessary because there is no evidence or argument that the elements thereof are incorporated in any product manufactured, used or sold by Distrimedic.

29 The positioning means are described in the '045 Patent as follows at page 8:

Positioning means are provided onto at least the top surface of the container-defining sheet (3) and on the container-sealing sheet (9) to ensure that, when the latter is positioned on top of the top surface of the container-defining sheet (3), the bands (18) and their tearing lines (11) be in exact superposition on top of the flanges (10) and the dotted lines (4) of the container-defining sheet (3). In the illustrated embodiments, which are the preferred ones, these positioning means comprise two protuberances (5) provided on the support (1) and which project upwardly from the top surface of the recessed area "A". The positioning means also comprises the holes (7), provided with the container-defining sheet (3) container-sealing sheet (9), two holes (15) sized and positioned to engage the two protuberances (5) of the support (1).

30 The '045 Patent also describes (at p. 10) an alternative for the positioning means as follows:

Because the dotted and tearing lines (11) and (4) have to be precisely one above the other, it is very important that the container sealing sheet (9) be precisely positioned above the container defining sheet (3). To do so, the two holes (15) of the container-sealing sheet (9) engage the two protuberances (5) of the support (1).

It has been found more convenient to provide the support (1) with protuberances, and the container-defining sheet (3) and the container-sealing sheet (9) with corresponding holes. However, some variations can be made without departing from the spirit of the invention. For example, the protuberance(s) to be engaged by the corresponding hole(s) provided on the container-sealing sheet (9), may be moulded directly on the top surface of the container-defining sheet (3) instead of being provided on the support (1).

After the holes (15) of the container-sealing sheet (9) are engaged to the protuberances (5) of the support (1), the paper covering is peeled off the bands (18) of the container-sealing sheet (9) and applied on the top surface of the container-defining sheet (3).

31 The figures to which the numbers found in these two quotes from the '045 Patent are reproduced below:

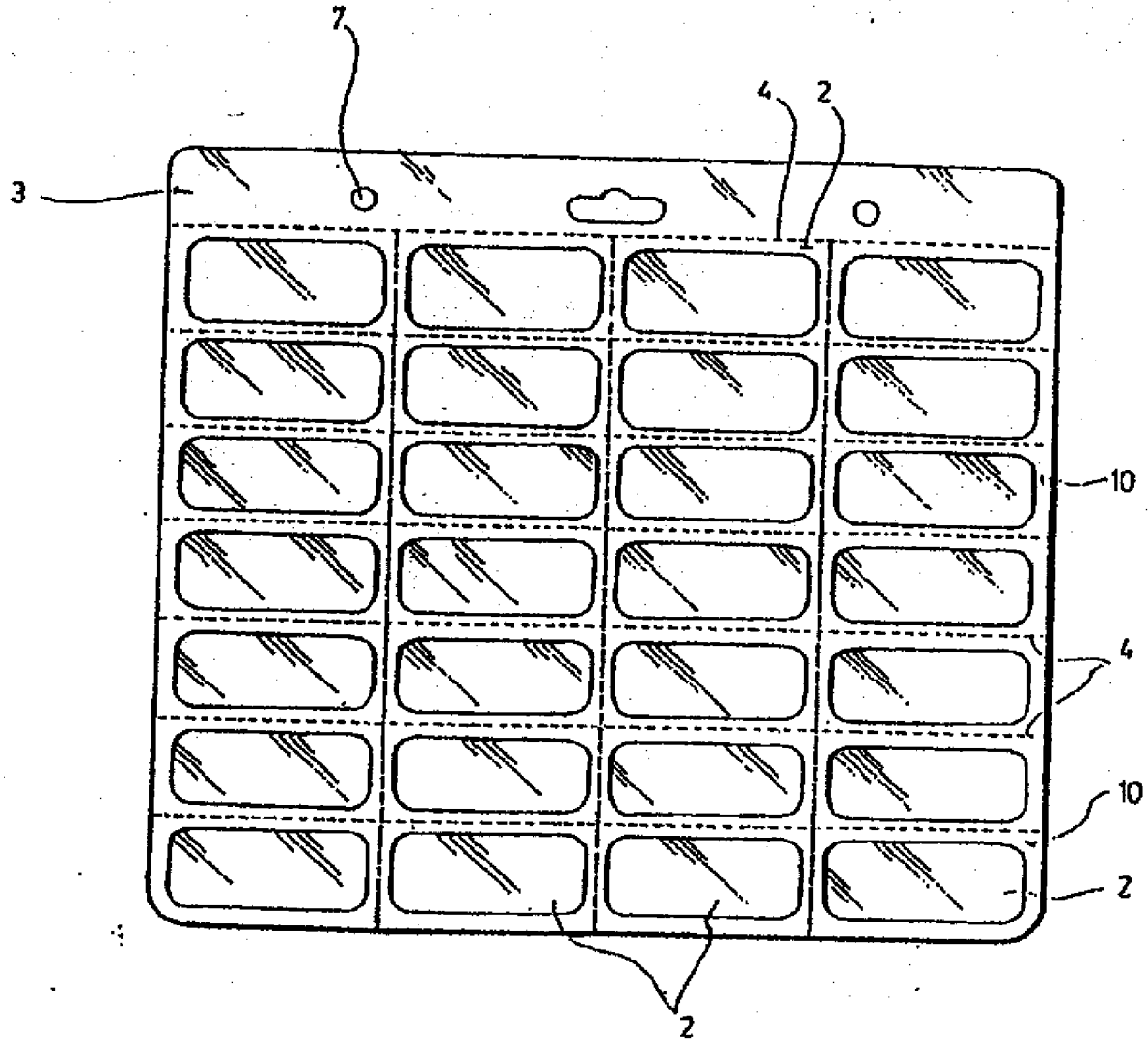


FIG. 3

Graphic P-16

FIG. 6

TREMBLAY (COTE) JEANNE Chambre:302 ; Table:12 MATIN Dos : 1234 Samedi 9 Novembre 96	TREMBLAY (COTE) JEANNE Chambre:302 ; Table:12 MIDI Dos : 1234 Samedi 9 Novembre 96	TREMBLAY (COTE) JEANNE Chambre:302 ; Table:12 SOUPER Dos : 1234 Samedi 9 Novembre 96	TREMBLAY (COTE) JEANNE Chambre:302 ; Table:12 COUCHER Dos : 1234 Samedi 9 Novembre 96
TREMBLAY (COTE) JEANNE Chambre:302 ; Table:12 MATIN Dos : 1234 Vendredi 8 Novembre 96	TREMBLAY (COTE) JEANNE Chambre:302 ; Table:12 MIDI Dos : 1234 Vendredi 8 Novembre 96	TREMBLAY (COTE) JEANNE Chambre:302 ; Table:12 SOUPER Dos : 1234 Vendredi 8 Novembre 96	TREMBLAY (COTE) JEANNE Chambre:302 ; Table:12 COUCHER Dos : 1234 Vendredi 8 Novembre 96
TREMBLAY (COTE) JEANNE Chambre:302 ; Table:12 MATIN Dos : 1234 Jeudi 7 Novembre 96	TREMBLAY (COTE) JEANNE Chambre:302 ; Table:12 MIDI Dos : 1234 Jeudi 7 Novembre 96	TREMBLAY (COTE) JEANNE Chambre:302 ; Table:12 SOUPER Dos : 1234 Jeudi 7 Novembre 96	TREMBLAY (COTE) JEANNE Chambre:302 ; Table:12 COUCHER Dos : 1234 Jeudi 7 Novembre 96
TREMBLAY (COTE) JEANNE Chambre:302 ; Table:12 MATIN Dos : 1234 Mercredi 6 Novembre 96	TREMBLAY (COTE) JEANNE Chambre:302 ; Table:12 MIDI Dos : 1234 Mercredi 6 Novembre 96	TREMBLAY (COTE) JEANNE Chambre:302 ; Table:12 SOUPER Dos : 1234 Mercredi 6 Novembre 96	TREMBLAY (COTE) JEANNE Chambre:302 ; Table:12 COUCHER Dos : 1234 Mercredi 6 Novembre 96
TREMBLAY (COTE) JEANNE Chambre:302 ; Table:12 MATIN Dos : 1234 Mardi 5 Novembre 96	TREMBLAY (COTE) JEANNE Chambre:302 ; Table:12 MIDI Dos : 1234 Mardi 5 Novembre 96	TREMBLAY (COTE) JEANNE Chambre:302 ; Table:12 SOUPER Dos : 1234 Mardi 5 Novembre 96	TREMBLAY (COTE) JEANNE Chambre:302 ; Table:12 COUCHER Dos : 1234 Mardi 5 Novembre 96
TREMBLAY (COTE) JEANNE Chambre:302 ; Table:12 MATIN Dos : 1234 Lundi 4 Novembre 96	TREMBLAY (COTE) JEANNE Chambre:302 ; Table:12 MIDI Dos : 1234 Lundi 4 Novembre 96	TREMBLAY (COTE) JEANNE Chambre:302 ; Table:12 SOUPER Dos : 1234 Lundi 4 Novembre 96	TREMBLAY (COTE) JEANNE Chambre:302 ; Table:12 COUCHER Dos : 1234 Lundi 4 Novembre 96
TREMBLAY (COTE) JEANNE Chambre:302 ; Table:12 MATIN Dos : 1234 Dimanche 3 Novembre 96	TREMBLAY (COTE) JEANNE Chambre:302 ; Table:12 MIDI Dos : 1234 Dimanche 3 Novembre 96	TREMBLAY (COTE) JEANNE Chambre:302 ; Table:12 SOUPER Dos : 1234 Dimanche 3 Novembre 96	TREMBLAY (COTE) JEANNE Chambre:302 ; Table:12 COUCHER Dos : 1234 Dimanche 3 Novembre 96

Graphic P-17

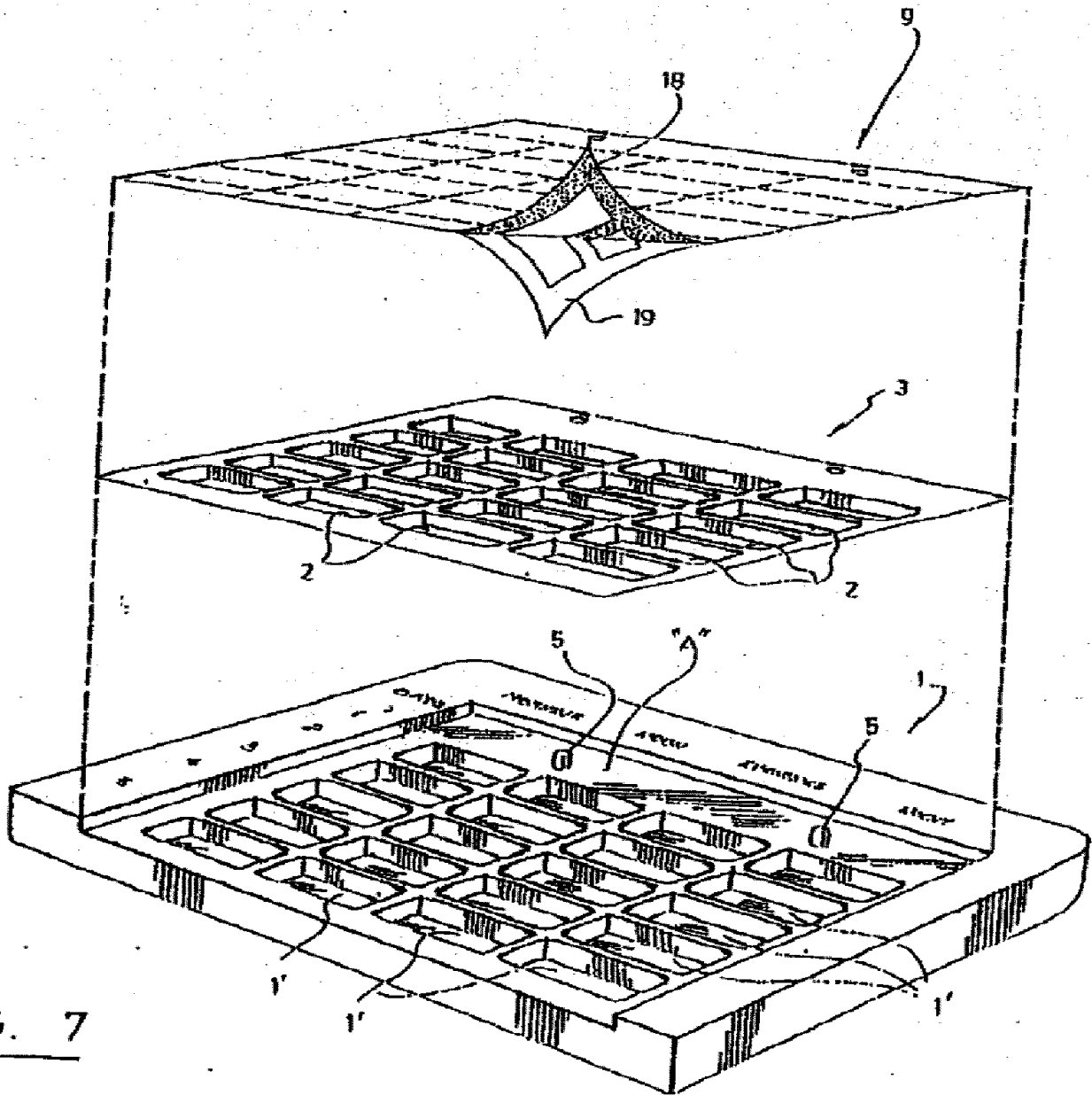


FIG. 7

Graphic P-18

c) The Products in Question

32 Both Richards and Distrimed produce weekly, detachable pill dispenser products that are primarily used in nursing home facilities. The parties' respective products are described in greater detail below.

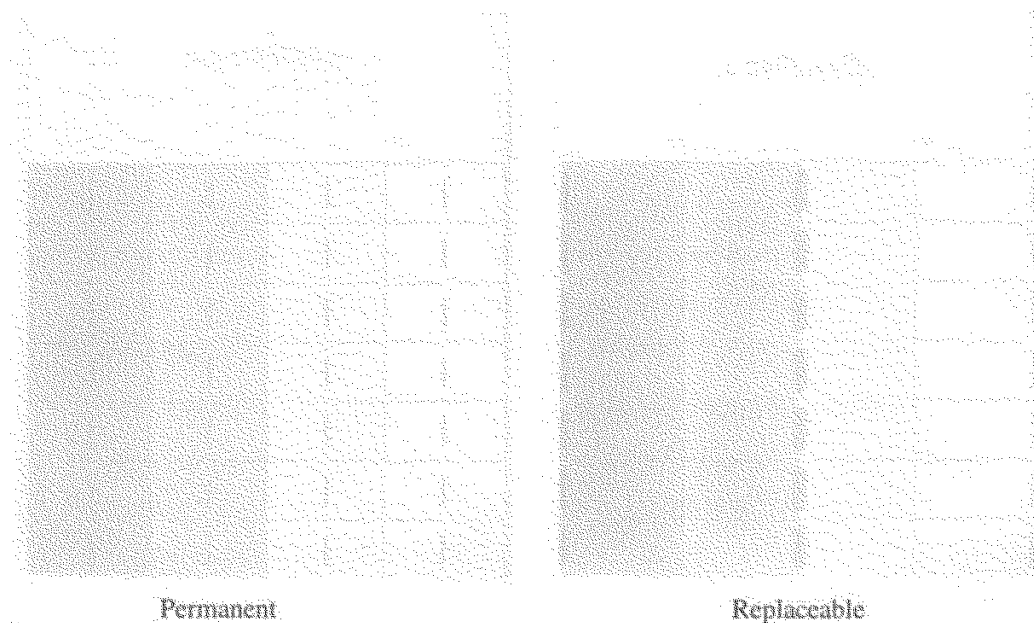
i. Richards' Product

33 Richards sells a pill dispenser to sort pills, tablets and capsules. Richards' pill dispenser is described in the '045 Patent and in Figure 7 thereof, (reproduced above).

34 As described by both parties, the lowermost element of Figure 7 is a tray (also called a recessed support) that is used to support a container-defining sheet made of clear plastic (sometimes called a blister) having a given number of evenly spaced apart cavities embossed therein. Once filled as prescribed, the container-defining sheet is sealed by a container-sealing sheet

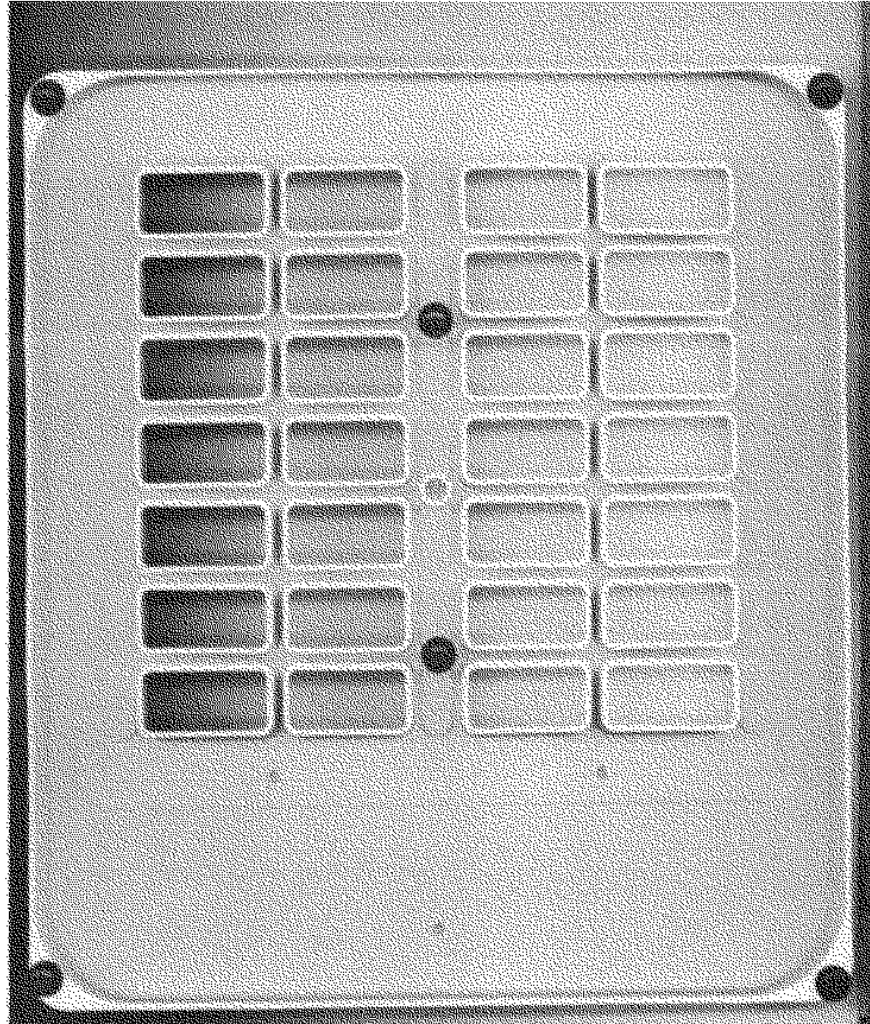
(sometimes called a label), which is the uppermost element of Figure 7. The container-sealing sheet is aligned with the container-defining sheet by means of two upwardly projecting protuberances on the top surface of the recessed support that engage corresponding pairs of holes in both the container-sealing sheet and the container-defining sheet.

35 Richards uses two types of container-sealing sheets, one for covering the container-defining sheet permanently (permanent labels), and one that is resealable/replaceable (replaceable labels). Both types of its container-sealing sheets have a top surface on which information may be printed, and a peelable bottom layer to permit the sealing of the cavities of the container-defining sheet. The top surface of each container-sealing sheet has an upper portion which is white, and a lower portion which is divided into four columns of equal width being, respectively from left to right, pink, green, yellow and white. Examples of Richards' permanent and replaceable container-sealing sheets are reproduced here:



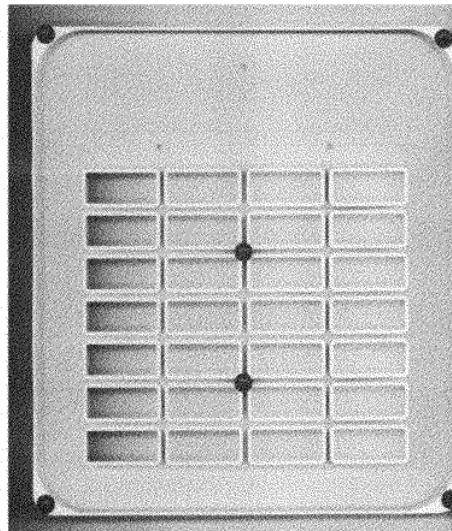
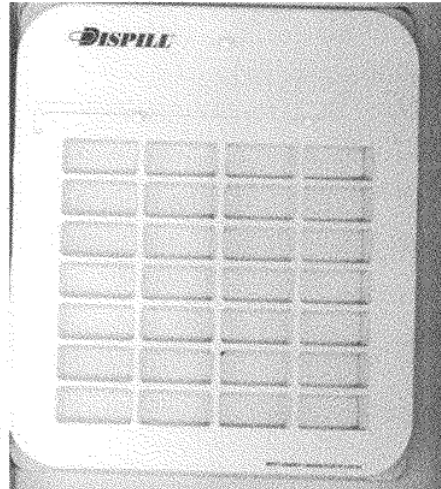
Graphic P-20#1

36 The mounting tray for a resealable label has indentations that facilitate pulling up tabs (Exh. 508) (JBD 19).



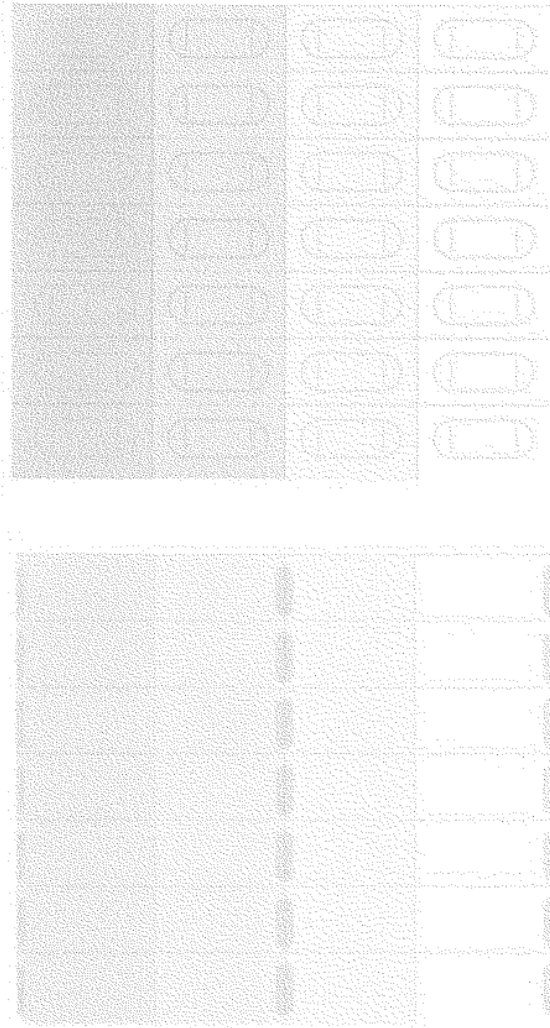
Graphic P-20#2

The blister tray has slight indentations on the side that align with these indentations to facilitate the tab. The difference between the permanent and the removable blisters are the indentations on the side allowing one to access the tabs on the removable blisters (Exh. 509) (JBD 21):



Graphic P-21

The difference between permanent and resealable labels is that there is a small plastic tab aligned with the colouring on the resealable label that allows for peeling back and resealing, while there are indentations to facilitate the breaking of the seal to remove the pill on the permanent label (Exh. 510 (permanent label) and 511 (resealable label):



Graphic P-22

Computer-generated information associated with when the pill is taken, the name of the pharmacy and the name of the patient can be printed on each cell of a sealed and completed sheet as demonstrated in Figure 6 of the '045 Patent (reproduced above).

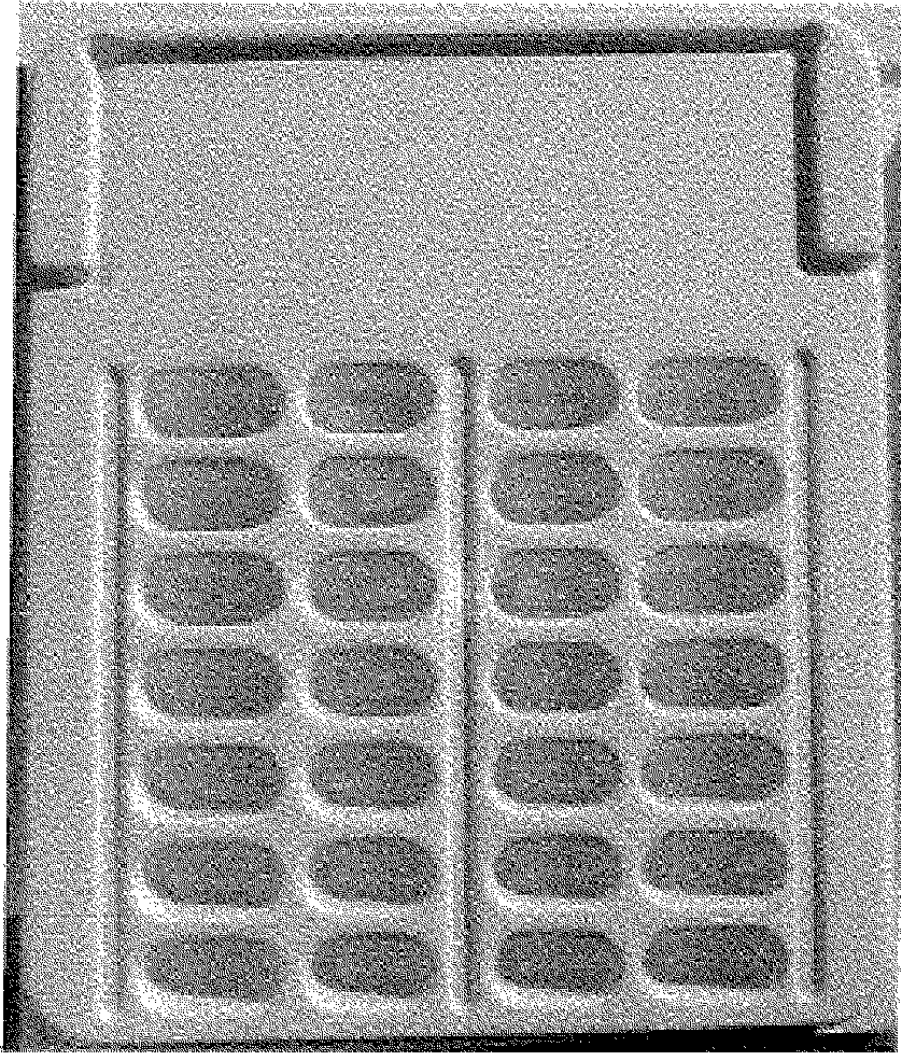
37 Richards initially sold an 8.5" × 10" label only, but later sold an 8.5" × 11" label also. It presently sells both sizes. Blank labels are sold to the pharmacists, who fill the blisters and do their own printing.

38 Richards makes a variety of accessories available to pharmacists to facilitate the filling, verification and shipping of the product, as well as the making of corrections to previously sealed sheets. These include, among others, a pill sorter, which consists of two moving plastic sheets that permit the user to put the pills on an indented tray first and then move it across to dispense the pills into the appropriate recesses in the container-defining sheet, as well as a knife and knife guide, verification stand, and shipping-related products.

ii. Distrimed's Product

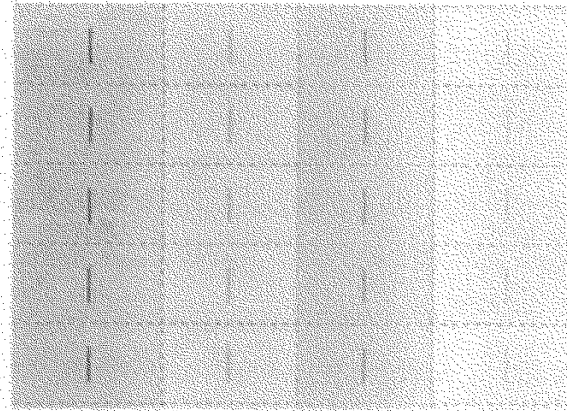
39 As described in the Agreed Statement of Facts, Distrimed also sells a pill dispenser to sort pills, tablets and capsules. Distrimed's pill dispenser includes a container-defining sheet made of clear plastic having a given number of evenly spaced apart cavities embossed therein, which is sealed by a container-sealing sheet.

40 The following is an image of one of Distrimed's trays (Exh. 500):



Graphic P-23

41 Like Richards, Distrimed provides both permanent and replaceable container-sealing sheets in 8.5" × 11" and A4 size, all of which have a top surface with an upper portion that is white, and a lower portion that is divided into four coloured columns. Distrimed's current container-sealing sheet is reproduced here:



Graphic P-24

d) Related Proceedings

i. The Patent Disclaimer Proceedings

42 As noted above, on November 8, 2005, subsequent to the commencement of the main action by Distrimed Inc., but prior to entering a defence or launching its counterclaim, Richards filed a disclaimer in connection with the '045 Patent pursuant to section 48 of the *Patent Act* with a request that "recordal of th[e] disclaimer be expedited" (JBD 144).

43 The changes in Claim 15 resulting from the disclaimer filed by Richards on November 8, 2005, are shown in bold and in parentheses:

a) a container-defining sheet made of a plastic material, said container-defining sheet having a top surface comprising a given number of evenly spaced apart cavities embossed therein, each of said cavities being upwardly opened and thus defining a container, each of said containers being surrounded by a flange of a given width provided with a central dotted line punched therein, said dotted lines provided in all of said flanges making it possible to detach each of the containers from the container-defining sheet and from the adjacent containers;

b) a recessed support having a top surface provided with a number of recesses at least equal to the number of cavities embossed in the container-defining sheet, said recesses being positioned, shaped and sized to receive the containers defined by said cavities embossed in the container-defining sheet;

c) a container-sealing sheet **having a top surface and a bottom surface and being** shaped and sized to cover at least all the containers and surrounding flanges of the container-defining sheet, **the bottom surface of** said container-sealing sheet **having bands that are positioned, shaped and sized to exactly correspond to and fit over the flanges of the container-defining sheet, with at least said bands being covered with a self-adhesive material which is covered until use by a protective peelable paper covering, and said container sealing sheet** being provided with tearing lines making it possible to tear said container-sealing sheet into a number of cover pieces corresponding to the number of said containers; and

d) positioning means provided on at least the top surface of the container-defining sheet and on the container-sealing sheet to ensure that, in use, after the container-defining sheet is fitted onto the recessed support, the container-sealing sheet is properly positioned on top of the top surface of the container-defining sheet, with its tearing lines in exact superposition on top of the dotted lines of the container-defining sheet,

wherein the positioning means comprises at least one upwardly projecting protuberance provided on the top surface of the recessed support [at least one hole] **and engaging means** provided [into] **on** the container-defining sheet and [at least one other hole] **other engaging means** provided [in] **on** the container-sealing sheet, said [at least one hole] **engaging means** and [one other hole] **other engaging means** being sized and positioned to correspond to and be engaged by said protuberance.

44 As described by Justice Martineau in a decision of the Court on application for judicial review, Richards was notified after the filing of its disclaimer that its request had been referred to a patent examiner *Richards Packaging Inc. v. Canada (Attorney General)*, 2007 FC 11 (F.C.) at para 19 [*Richards*]). The file was ultimately considered by a Patent Project Officer, who refused Richards' disclaimer by letter dated December 20, 2005. The Officer found that the request could not be considered a disclaimer and should therefore be refused, reasoning that the disclaimer rendered the whole claim broader than what was originally allowed and that it would result in claiming more than what was until then protected in the claims of the patent (*Richards*, above, at para 21).

45 Richards filed an application for judicial review seeking mandamus and other forms of declaratory relief and, on February 27, 2006, Prothonotary Morneau allowed a motion made by Distrimedic to be added as a respondent to the judicial review proceeding (*Richards Packaging Inc. v. Canada (Attorney General)*, 2006 FC 257 (F.C.)).

46 In *Richards*, at paragraph 23, Justice Martineau described the impact of the disclaimer at that point in time on the file now before this Court as follows:

23 At this point, I note that on December 1, 2005, following the filing with the Patent Office of the applicant's disclaimer, but prior to the making of the impugned decision, the applicant filed before the Court a statement of defence and counterclaim in which it contends that various claims in the patent are valid and that Distrimedic infringed these claims. Its allegations rely in large part on the applicant's disclaimer, filed on November 8, 2005. Following a motion to strike brought by Distrimedic, on June 29, 2006, Prothonotary Morneau ordered that the paragraphs of the applicant's defence and counterclaim making reference to the applicant's disclaimer be struck out. Although this Court had not yet addressed the legality of the impugned decision, Prothonotary Morneau nevertheless concluded that "this notice of application for judicial review does not for the time being change the fact that there is no valid disclaimer now affecting the patent '045 claims" (*Distrimedic Inc. v. Dispill Inc.*, [2006] F.C.J. No. 1045, 2006 FC 832 at para. 38) [emphasis added]. On October 17, 2006, my colleague Justice Max M. Teitelbaum maintained Prothonotary Morneau's order on appeal and agreed "that until the issue of the validity and effect of the disclaimer has been judicially reviewed, the references to the disclaimer should be struck out of the Defence and Counterclaim on the grounds that they are immaterial and frivolous pursuant to Rule 221(1)(b) and (c) of the Federal Court Rules" [emphasis added] (*Distrimedic Inc. v. Dispill Inc.*, [2006] F.C.J. No. 1532, 2006 FC 1229 at para. 56). That being said, Justice Teitelbaum indicated, at paragraph 54, that should the applicant "be successful in that judicial review proceeding, they may then move this Court to allow them to amend their pleadings to reintroduce allegations based on the disclaimer into the Defence and counterclaim".

[Underlining in original]

47 Finding that the Patent Office had no discretion to refuse entry or recordal of a disclaimer once it has been submitted in the proper form and manner and the prescribed fee has been paid, Justice Martineau accepted Richards' arguments that: "1) Dionne [the Patent Officer] had no jurisdiction under the Act and the Rules either by way of delegation or otherwise to examine the applicant's disclaimer and to make the impugned decision; and 2) that the Commissioner is not empowered under the Act

and the Rules to refuse the filing or recordal of the applicant's disclaimer that was filed on November 8, 2005 in the prescribed form and manner, as provided by subsection 48(2) of the Act and section 44 of the Rules" (*Richards*, above, at para 24).

48 Although Distrimed argued that "the Court's adoption of the applicant's position would render patents unfair, impossible to predict and make them a 'public nuisance'" and that "potential competitors of the patentee would be in a constant state of uncertainty with respect to the scope of the patent, since the patentee could broaden the claims at any time by way of a document purporting to be a disclaimer", Justice Martineau concluded that Canadian patent law is entirely statutory and "this Court cannot rely on valid policy considerations to substitute itself for Parliament" (*Richards*, above, at para 25).

49 Finding that the power to consider the validity of a disclaimer rests entirely with the courts, but that a judicial review proceeding was not "the proper vehicle to obtain a judicial declaration as to the validity or invalidity of a disclaimer filed by a patentee with the Patent Office", partially given the lack of expert evidence, Justice Martineau set aside the Officer's decision letter such that the disclaimer would be considered filed and effective as of its filing date of November 8, 2005. In doing so, Justice Martineau overturned the Patent Officer's finding that the amendment would result in claiming more than what is currently protected in the claims of the patent, as this is a factual and legal determination on the merit of the disclaimer which the Patent Officer had no jurisdiction to make.

50 Justice Martineau's decision was confirmed by the Federal Court of Appeal in an oral judgment rendered on January 8, 2008 (*Richards Packaging Inc. v. Canada (Attorney General)*, 2008 FCA 4 (F.C.A.)).

ii. The Trade-mark Registration Proceedings

51 In its Three Times Amended Statement of Defence and Counterclaim, Richards argues that by virtue of its extensive advertising and sales, the "Richards Packaging Label Colour Trade Marks" (i.e., the colours applied to the top surface of both its permanent container-sealing sheets and its replacement container-sealing sheets) have become well and favourably known to pharmacists, nurses and nursing home employees, as well as the public, and have become distinctive trade-marks of Richards' packaging in association with its Dispill pill dispenser (Statement of Defence and Counterclaim, September 27, 2010, at paras 28-29).

52 The Richards Colour Trade Mark, referred to by Distrimed as the "Dispill Colour Scheme", is the subject of Canadian Trade-mark Application No. 1,393,024. Upon opposition of the registration by Distrimed, an oral hearing was held and the Registrar of Trade-marks ultimately refused the application on October 31, 2012. The Registrar found that Richards had not used the colour scheme as a trade-mark, as defined in section 2 of the *Trade-marks Act*, RSC 1985, c T-13, but as a colour code indicating the time of day for taking the medication contained in the pill dispenser rather than as a trade-mark identifying the source of the wares. As a result, the Opposition Board allowed Distrimed's opposition and concluded that (i) the Dispill Colour Scheme was not intended to be used as a trade-mark; (ii) the Dispill Colour Scheme is inherently non-distinctive because it is functional; and (iii) Richards did not present sufficient evidence of public recognition of the Dispill Colour Scheme as a trade-mark.

53 An appeal of the Registrar's decision was submitted on February 4, 2013, and is currently before this Court as *Richards Packaging Inc v Distrimed Inc*, T-236-13. Richards filed a requisition for hearing on June 21, 2013. Richards argues that, in rejecting the application, the Registrar erred in a number of ways: by applying a higher standard of proof than appropriate in considering use of the applied-for mark (which he considered "non-traditional"); by holding that in a situation where a mark possesses some level of functionality, the burden on the applicant to establish the distinctiveness of the trade-mark will be high; by holding that a trade-mark comprising a colour or colours applied to the surface of a product is inherently non-distinctive; in its consideration of the evidence and testimony before it; and in connection with one finding of fact, although the significance of the alleged error is unclear based on the Notice of Application alone. Richards made much the same arguments in the context of the case at bar.

III. Issues

54 On September 28, 2011, following a pre-trial conference with the parties, Prothonotary Morneau issued an Order setting out the following list of issues to be addressed at trial:

Patent

1 Construction of the 2,207,045 Patent

2 Whether Distrimed has infringed the 2,207,045 Patent by manufacturing and selling the Distrimed pill dispenser

3 Whether the disclaimer filed in relation to claims 15 to 21 of the '045 Patent is valid, and whether claims 15 and 17-21 as disclaimed are invalid in light of invalidity of the disclaimer.

4 In the event that the disclaimer is valid and the disclaimed claims are construed broadly enough to encompass the Distrimed pill dispenser, are claims 15 and 17-19 as disclaimed nevertheless invalid as being anticipated by or made obvious in light of US Patent No. 3,780,856 (Braverman)

Alleged Misrepresentations

5 Whether the defendants to the counterclaim have made false and misleading statements that tended to discredit the business, services and wares of Richards

Trade-Mark

6 Whether trade-mark rights subsist in the arrangement of colours applied to Richards' container-sealing sheet

7 Whether Distrimed has used any such trade-mark rights in the original colour arrangement that is or was contrary to section 7(b) of the *Trade-Marks Act*

8 Has Distrimed directed public attention to its business in such a way as to cause confusion in Canada with those of Richards?

Copyright

9 Whether copyright subsists in the Dispill Label Form

10 Whether Richards is the owner of any such copyright in the Dispill Label Form

11 Whether Distrimed has infringed any copyright owned by Richards in the Dispill Label Form

Alleged Joint Liability

12 Whether any of the Defendants to the Counterclaim other than Distrimed Inc. are liable for any of the allegedly-infringing activities

Remedies

13 In the event that there has been infringement as alleged, whether:

a) Richards has suffered damages and, if so, the extent of same

b) regarding copyright infringement, whether Richards is entitled to damages and an accounting of profits

c) whether Richards is entitled to an injunction and to the declarations requested regarding validity of the Patent and actions of the defendants to the counterclaim

14 Costs.

IV. Fact Witnesses

55 Prior to the commencement of the trial, both Richards and Distrimedic proposed to call three fact witnesses each.

56 Richards would call Gerry Glynn, Chief Executive Officer (CEO) of Richards Packaging Inc., Marie-Josée Glaude, the General Manager of Richards' Dispill Division, and René Thibault, a pharmacist and Dispill customer who was approached by Distrimedic when it entered the market.

57 Distrimedic would call Claude Filiatrault and Robert Poirier, both former employees of and shareholders in Dispill and current or former shareholders in the other corporate Defendants to the Counterclaim. Distrimedic also intended to call Paul van Gheluwe, a prior Dispill employee and sale representative for Distrimedic, but felt that his testimony was unnecessary for the reasons explained below.

a) Richards' Fact Witnesses

i. Gerry Glynn

58 Mr. Gerald Glynn has been the CEO of Richards since 2002, and was called to provide factual evidence regarding Richards Packaging Inc., Dispill Inc., the Dispill pill dispenser and related financial information, as well as to testify regarding the use of the Richards' colour trade-mark, the Dispill Label Form, and the patent disclaimer.

59 During his examination-in-chief, Mr. Glynn provided an explanation of his role within Richards and a picture of Richards' corporate structure and business as a whole, including the types of products sold. Mr. Glynn then went on to describe the circumstances surrounding the acquisition of Dispill Inc. and the Division's place within the company as a whole, including geographical distribution, representation and internal reporting structure. Glynn described what he referred to as the "Dispill solution" and its primary customers.

60 Richards' counsel went on to have Mr. Glynn introduce various documents into the record related to the acquisition of Dispill Inc, acknowledging that Mr. Glynn cannot read French, and it was agreed that documents would be taken as proven unless an objection was raised. After introducing a number of documents, Mr. Glynn testified that he learned of Mr. Filiatrault and Mr. Poirier and their failed attempt to acquire Dispill Inc. during the due diligence related to Richards' acquisition but that, apart from reading about them, he had never met them.

61 Mr. Glynn introduced two DVDs containing instructional videos for nursing homes and pharmacies, respectively, which constituted marketing material for Richards and were played for the benefit of the Court. Mr. Glynn was unsure when they were made but confirmed that they pre-dated the 2005 acquisition. Mr. Glynn then introduced a number of physical items into the record, and explained their uses. Mr. Glynn took the Court through the items listed in a Dispill price list, explaining the intended uses for specific product components and accessories and who would use them (e.g., the pharmacist, nurses or non-professional staff of either the drug store or nursing home). Mr. Glynn went on to discuss the profit margin for various products, noting that the majority of Richards' sales are of consumables (blisters and labels) and that accessories are sold primarily to facilitate the consumable business. Sample labels were then introduced and described.

62 Mr. Glynn explained that when Dispill Inc. commenced operations, it had an exclusive relationship with the pharmaceutical company Novopharm Quebec. Products purchased or ordered by pharmacies were invoiced to and paid for by Novopharm. Later, that relationship with Novopharm came to an end and, thereafter, Dispill invoiced pharmacies directly for products they ordered.

63 After introducing additional physical exhibits, Mr. Glynn introduced a complete solution provided to Richards by Distrimedic as a sample when their action was begun, with a label bearing the same colours as the Richards product, as well as a sample received at a trade show with Distrimedic's current colour scheme.

64 Mr. Glynn reviewed Richards' disclaimer, explaining why in his view certain claims were too broad and needed to be narrowed and indicating that they wanted to provide a more specific definition of the label and a clearer description of the purpose of the holes, which was to provide an engaging means. Mr. Glynn explained that the timing of the disclaimer was motivated by their review of the patent following receipt of Distrimedic's Statement of Claim and indicated that the intent of the disclaimer was to narrow the patent's application and to correct inadvertent errors or inadequate descriptions, both for the benefit of the litigation involving Distrimedic and to clarify the patent in connection with Richards' other competitors.

65 Mr. Glynn went on to discuss the importance of the colours on the Dispill labels, explaining that they do two things: one is to "sort of brand your product as recognizable", the other is "to facilitate the sort of use of the product" (Transcript, March 25, at p 125). He noted that unless otherwise required by law, for example when issuing narcotics, Richards always uses the same colour scheme and is not aware of any other company using the same colours, apart from Distrimedic's brief use of them. Mr. Glynn indicated that the pharmacists do their own printing and that patients aren't likely to see a complete label. He then went on to discuss the products and colours employed by various Richards' competitors, specifically Jones and Manrex, and the advantages of the Richards solution over those other products (e.g., Richards' does not require a thermal seal), introducing samples along the way. He added that the Dispill system is a superior system to both Jones' and Manrex's systems due to its functionality and to the added safety of printing on the blister cell. Delivery of pills to patients takes less time with the Dispill system and the error rate is lower. Jones and Manrex have a small percentage of the market in Quebec, but they have a larger share of the overall Canadian marketplace. As for the other products on the market prior to Distrimedic's entrance, Mr. Glynn suggested they were alternate solutions to dispensing pills and not competing products.

66 Mr. Glynn went on to discuss the various software companies and programs associated with Dispill Inc. at various points in time, including Kroll and DLD's Mentor program. He stated that when Dispill had an agreement with a software company, the agreement would recognize that the software company was using Dispill's software. Screenshots from both DOS and Windows versions of the DLD software were reviewed, noting a hyperlink connected with Distrimedic's name in at least one version.

67 Mr. Glynn confirmed that sales of consumables represent about 97-98% of Richards' business and noted that label sales exceed blister sales by approximately 20-25%, as more labels will be used if any changes are made. Financial documents demonstrating discounting, price decreases and rebates were also discussed. Mr. Glynn indicated that prices dropped by about 20% when Distrimedic entered the market in 2006. Correspondingly, the number of customers being offered discounts increased, even if the discounts offered did not change. Mr. Glynn indicated that rebates are offered in response to pricing pressures in the marketplace from Distrimedic. With the exception of the initial launch year by Distrimedic and the corresponding correction of the pricing, Richards' sales have been growing each year thereafter. If Distrimedic were not in the marketplace, Mr. Glynn believes that Richards would be able to increase its prices.

68 In her cross-examination of Mr. Glynn (Glynn, March 26, at pp 45-153), Distrimedic's counsel touched on a variety of issues. Mr. Glynn confirmed that he is not involved in the day-to-day activities of the Dispill Division and spends "very little" of his overall time on that portion of Richards' business; he also admitted that he had no direct knowledge of the business of Dispill Inc. prior to Richards' July 2005 acquisition, apart from information disclosed to him as part of the due diligence that preceded the transaction.

69 Counsel also questioned Mr. Glynn with respect to Richards' concurrent trade-mark application proceedings, Richards' specific trade-mark concerns (no claim in relation to Distrimedic's current colour use or name), the specifics of Richards' copyright claim (no claim in any software and no claim that Distrimedic used the software themselves but rather that they induced use on the part of pharmacists, admitting the DOS version likely hasn't been used since at least 2006), and Richards' relationship with the various software companies (including the ownership of the Dispill Label Form and payments for programming services or software licensing).

70 Mr. Glynn reiterated that the Dispill product has become an industry standard and has basically dominated the Quebec market. Counsel had Mr. Glynn clarify the circumstances surrounding the 2005 acquisition and intellectual property-related due diligence. He admitted that neither the Dispill Colour Scheme nor the Dispill Label Form were specifically discussed during

the due diligence or specifically mentioned in the transaction agreements. He indicated, however, that the agreement between Richards and Dispill Inc. was meant to be all-inclusive such that all intellectual property held by Dispill Inc. would be transferred to Richards. In his view, although Schedule 5.1(ee) of the Share Purchase Agreement dated July 29, 2005 (JBD 244), which makes no mention of the Dispill Colour Scheme or Dispill Label Form, indicates that it is a list of all intellectual property, it was the seller's obligation to complete the list. To the extent that anything was missing from the seller's representation of its intellectual property, it would not affect Richards' right to acquire all of Dispill Inc.'s intellectual property.

71 Counsel went on to question Mr. Glynn regarding the attribution of decreased pricing to Distrimed's entry in the market, Richards' response to Distrimed's entry (e.g., the notice sent to all pharmacist customers in September 2005 with respect to potential infringement of Dispill's patent, purportedly in response to confusion in Richards' customer base and to dispel any confusion between Richards and Distrimed), and the legality of the movement of employees from Dispill to Distrimed.

72 Finally, counsel had Mr. Glynn discuss the practical differences between the Dispill solution and solutions offered by competitors such as Jones and Manrex (e.g., with respect to sealing and printing labels, querying why although they are also authorizing pharmacists to print labels with similar information to Richards' they have not been sued), and the difference between the Dispill Label Form and the broader pharmacy software programs. At one point Mr. Glynn agreed that the copyright Richards is claiming is in the method of printing information onto individual cells, not on the top part of the container-sealing sheet. In other words, he suggested that the copyright that is claimed is the method of having individual cells that can be broken off while remaining sealed, with information displayed on the back of the cell so that it can be a stand alone product. He describes Richards' copyright as being identifiable on the basis of a two-part test: so long as the information appears on each cell and is substantially the same as what was selected as part of Richards' screenshots, copyright will be infringed. When pointed to a recently released Jones product incorporating printing on individual cells, Mr. Glynn indicated that Richards hadn't followed up on the details of the product and wasn't sure if it was infringing the patent, but, as far as his company was concerned, Jones was infringing the copyright by printing on the back of each cell of its solution, however the printed information is organized.

73 With respect to patents, counsel for Distrimed had Mr. Glynn confirm that accessories are not sold subject to any restriction regarding their use apart from the fact that they are patent-protected. He also confirmed that there is no allegation that Distrimed is selling a knife or a cutting board. Reviewing Richards' reasons for filing the patent disclaimer, Mr. Glynn accepted that the last paragraph of the original Claim 15 stated that the holes were sized and positioned to correspond to and be engaged by said protuberances, and ultimately offered that he filed the disclaimer on the basis that "the new description is a better description when read in combination with this than this alone", presumably referring to the new and old wording (Transcript, March 26, at p 102). Despite acknowledging similarities between Claims 1 and 15 of the '045 Patent, Mr. Glynn had no answer as to why the disclaimer was not made to apply to Claim 1 as well as to Claim 15. He indicated that Richards did not speak to Mr. Bouthiette regarding the need for a disclaimer, that it was a mistake not to specify a reference to adhesive bands in the original patent, and that the language referring to engagement was "not as descriptive as it should have been" (Transcript, March 26, at p 104).

74 Upon being asked for some further clarification regarding the copyright infringement claim and the specific claims arising from or underlying "Dispill's Label Form", Mr. Glynn (referring to Exh. 164 and 165) claimed that initially there was no Distrimed link in the Mentor software, so the printing of the Distrimed label would be done by defaulting to the Dispill label. When a Distrimed link was subsequently added to the software, Mr. Glynn agreed that "the problem [Richards has] with Distrimed, with respect to the copyright and the software is that they have — Distrimed has commissioned an application in the existing pharmacy software that allows the pharmacists to make the same selection of fields and print them onto a label ...on top of the cell" (Transcript, March 26, at pp 122-123). Maintaining his position that Dispill offers a value-add over competitors' products in part due to the value of the associated intellectual property and in part due to ease of use, Mr. Glynn confirmed that Richards has "the right to prevent anybody from using the Mentor program for purposes of printing onto a pill dispenser with the information on individual cells" (Transcript, March 26, at p 126).

75 Mr. Glynn went on to discuss the Dispill target customers (pharmacists and nursing homes), factors affecting competition (nursing homes are more concerned with functionality and accuracy than with price) and pricing in the marketplace. Mr. Glynn repeated that Richards began increasing its rebates in 2006 and decreasing its prices in 2007 in response to Distrimed coming

into the market; Dispill had no competitor before Distrimedic, as Jones and Manrex were alternate solutions but were not offering the same kind of product. Mr. Glynn mentioned that the intellectual property owned by Dispill Inc. was not a factor in the negotiations leading to its purchase by Richards.

76 In 2006, Richards removed the volume target necessary to obtain a rebate instead of lowering its prices as a means of appeasing certain customers without immediately offering a lower price to each customer. Before Distrimedic entered the market, few customers reached the volume targets and thus the number of rebates offered was small. Afterwards, the volume rebate percentage remained at approximately 7%, but the number of rebates increased because the number of customers who were offered discounts increased significantly in order to compete with Distrimedic's lower prices. In 2007, Richards was forced to drive down its prices due to competition by Distrimedic. The price (revenue per case unit) had dropped by approximately 20% by December 31, 2007. Outside of Quebec, however, pricing and discounting remained the same before and after Distrimedic's launch.

ii. Marie-Josée Glaude

77 Marie-Josée Glaude, Vice-President of Sales and Trade Relations in Richards' Retail Division and General Manager of Richards' Dispill Division in Montreal, was called to provide factual evidence and introduce various documents regarding Richards Packaging Inc., its relationship with various software companies, and pricing, including discounts offered in connection with Dispill products. Ms. Glaude was examined and cross-examined on March 26 and 27, 2013. She broadly confirmed Mr. Glynn's testimony with respect to pricing, adding that the pricing of Dispill products was dealt with on a case-by-case basis; the price was lowered if it made sense to do so in order to keep a customer. She provided numerous examples of Dispill customers consistently advising Dispill, after the entry of Distrimedic into the marketplace, that they could get the same product at a lower price from Distrimedic. She also referred to some emails and handwritten notes of employees of Richards tending to establish that some representatives of Distrimedic had used Dispill brochures to order Distrimedic products and suggesting that Dispill accessories can be used with Distrimedic products. When made aware of these practices in the fall of 2005, a Notice to Pharmacists was sent by mail stating that "[i]t has come to our attention that certain persons without our authority have been promoting a product similar to DISPILL® or as a complete substitute for DISPILL®". The letter went on to advise that such persons were not associated with DISPILL® or Richards Packaging and did not have any authority to sell the product or to represent themselves as associated with it. The letter indicated that any other product represented as related to DISPILL® would infringe Richards' trade-mark rights, that DISPILL® is protected by patent, that any use of components such as blister sheets or adhesive backing sheets purchased from sources not authorized by Richards to manufacture sets of individual pill containers would infringe its patented method for DISPILL®, and that any product that was a copy of or purported to be the same as DISPILL® would infringe Richards' patent rights in the product (Exh. 141 and 143).

78 I agree with counsel for the Defendants to the Counterclaim that Ms. Glaude is not a witness who can testify to the distinctiveness of the alleged trade-mark or to any instance of confusion or misrepresentation on the part of any of the Defendants to the Counterclaim without it being hearsay or speculation. Indeed, she admitted to not being in direct contact with Dispill's pharmacy customers and did not present any evidence to the effect that she is in contact with nursing homes. With respect to software issues, Ms. Glaude admitted to not being familiar with Mentor or the more modern versions of pharmacy software and indicated that she could not speak to the Dispill Label Form (JBD 149), which ceased being used prior to Richards' acquisition of Dispill Inc. For those reasons, I find that her testimony has little relevance on this point and should be given little weight.

79 Moreover, certain documents relied upon by Ms. Glaude to bolster Richards' allegations of misrepresentations are not admissible because they contain hearsay. This is true, particularly in light of an email exchange ending with a January 3, 2007 message from Hugo Lebrun to Dispill, which includes a handwritten note (found at JBD 168 and JBD 352 at p 6), an email dated October 25, 2007 from Maryse Fontaine to Hugo Lebrun (found at JBD 182, JBD 183 at p 2 and JBD 352 at p 7), and a handwritten page headed "Automne 2006" referring to Ph Fleury & Ass. (found at JBD 352 on the third last page). All of these records were prepared by Maryse Fontaine, who works at Richards' Dispill Division in Granby, Quebec.

80 The general rule prohibiting hearsay evidence has been succinctly stated as follows:

Written or oral statements, or communicative conduct made by persons otherwise than in testimony at the proceeding in which it is offered, are inadmissible, if such statements or conduct are tendered either as proof of their truth or as proof of assertions implicit therein.

Alan W. Bryant, Sidney N. Lederman & Michelle K. Fuerst, *Sopinka, Lederman & Bryant: the law of evidence in Canada*, 3rd ed (Markham: LexisNexis, 2009) at 229-230.

81 At the core, the rule prohibits reliance on any written or oral statements made out-of-court, if the evidence is to be tendered for the truth of its contents. The Plaintiff by Counterclaim argues that the above-mentioned documents should be accepted as admissible even if they contain hearsay evidence because they constitute business records.

82 The exception to the inadmissibility of hearsay evidence for business records is grounded in the fact that the identity of the person who created the record may be unknown and, even if present in Court, such person could not add anything to what appears in the record. Moreover, there are reasons for confidence in the accuracy of information contained in business records: the routine and habit of making entries in business records, and an employee's concern over disciplinary consequences that could follow in the event of any inaccuracy.

83 Section 30(1) of the *Canada Evidence Act*, RSC 1985, c C-5 allows for documents to be admitted into evidence that would otherwise be hearsay provided that they are identified as records made in the usual and ordinary course of business. However, section 30(10) sets out certain categories of records that are not rendered admissible under section 30(1), including documents made in contemplation of a legal proceeding (s. 30(10)(a)(ii)). This exception exists because there is a danger that a record made in contemplation of a legal proceeding will lack objectivity, rendering it unreliable: see *Performing Rights Organization of Canada Ltd./Société de droits d'exécution du Canada Ltée v. Lion d'Or (1981) Ltée*, [1987] F.C.J. No. 934 (Fed. T.D.), at p 3; *Setak Computer Services Corp. v. Burroughs Business Machines Ltd.* (1977), 15 O.R. (2d) 750 (Ont. H.C.), at p 755 (On Sup Ct). The main requirements for admission of hearsay evidence under the common law business records exception are that the person who created the record did so contemporaneously, based on personal knowledge and under a duty to do so: *Ares v. Venner*, [1970] S.C.R. 608 (S.C.C.). Under the principled approach, hearsay evidence must be necessary to prove a fact in issue and must be reliable, with necessity going to the relevance and availability of evidence: *R. v. Khan*, [1990] 2 S.C.R. 531 (S.C.C.); *R. v. Khelawon*, [2006] 2 S.C.R. 787 (S.C.C.).

84 In the case at bar, Ms. Glaude gave no indication that Maryse Fontaine was unavailable to give testimony, and in fact confirmed that Ms. Fontaine was working in Granby on the day of Ms. Glaude's testimony. Ms. Glaude also acknowledged that at least a portion of Ms. Fontaine's notes were not written contemporaneously but rather later in time, either from memory or based on other notes not tendered as evidence.

85 Moreover, the first chain of emails ending with the January 3, 2007 message from Hugo Lebrun to Dispill alleges that a representative of Distrimedic showed a potential customer a Dispill catalogue for the purposes of ordering accessories. The alleged event occurred between the representative of Distrimedic and the potential customer. The potential customer then allegedly communicated this event to two Dispill representatives who in turn allegedly communicated it to Fontaine who, according to Glaude, wrote the note. The content of the handwritten note therefore constitutes triple hearsay. Even if the handwritten note were qualified as a business record, it would still constitute double hearsay.

86 The email dated October 25, 2007 from Ms. Fontaine to Hugo Lebrun alleges that Distrimedic told one of its customers to call Dispill for accessories. The situation is similar to that set out in the previous paragraph. The alleged event occurred between Distrimedic and the customer. The customer then allegedly communicated the alleged event to a nursing home that in turn allegedly communicated it to Fontaine who, according to Glaude, wrote the email. The content of the email therefore constitutes triple hearsay such that, even if it were qualified as a business record, it would still constitute double hearsay.

87 Finally, the handwritten page headed "Automne 2006" alleges that a pharmacist received a La Société d'Impression business card with Dispill's phone number written on it. The pharmacist allegedly advised Ms. Fontaine. There is no evidence that either Ms. Fontaine or Ms. Glaude saw the alleged card. Moreover, there is no evidence as to when the page was written.

The page indicates the date as "Automne 2006 (Je crois Nov. 06)". This indicates that the document was created after the alleged phone call was received, likely by several months.

88 None of the issues in dispute described by the above-listed documents was based on personal knowledge of Ms. Fontaine. Further, all such documents were created well after the commencement of the present action in September 2005 and it does not appear that Richards' practice was to create such documents before the commencement of the present action. For all of the foregoing reasons, I find that these documents fail to satisfy the business record exception to the hearsay rule.

iii. René Thibault

89 Mr. René Thibault, a pharmacist and Head of the Département de pharmacie, Centre CSSS, Institut universitaire de gériatrie de Sherbrooke, was a customer of the Dispill pill dispenser who was approached by Distrimed when it first entered the market. Mr. Thibault was examined and cross-examined on March 27, 2013.

90 In 2006, Mr. Thibault became aware of Distrimed because he was looking for the best offer available for blister products. In the autumn of that year, Mr. Thibault met with a representative from Distrimed, Mr. Paul van Gheluwe, in order to see whether Distrimed could offer a better contract on blister products than Dispill was offering at the time. When Mr. Thibault considered switching from the Dispill product to the Distrimed product, he was concerned with whether Distrimed had the same or similar accessories as the Dispill system. He testified that the representative of Distrimed presented accessories that could be used with the Distrimed pill dispenser with the help of a catalogue. When Mr. Thibault, who at the time was very familiar with Richards' pill dispenser, asked if Distrimed had accessories to use with their products, he was shown product sheets that were very similar to the sheets found in the Dispill catalogue shown to him as Exhibit 513, but without the word "Dispill" on them. It was due to this similarity that he thought the two companies must have had the same external supplier.

91 On cross-examination, Mr. Thibault testified that ease of use was his primary consideration in choosing a product. He also indicated that some information must be printed on a prescription drug, like the name of the patient, the name of the drug and its strength, its dosage and how it should be taken. Since such information is required by law, he would not be allowed to use a pill dispenser that did not allow for the inclusion of the required information.

92 Mr. Thibault also mentioned that he was the one who contacted the representative from Distrimed in 2006 to inquire about his product, after being told by colleagues that Distrimed offered a similar product to Dispill at a lower price. When shown the Distrimed price lists (JBD 27 and 34), he did not think that such price lists would have left him with the same impression of similarity to Dispill's catalogue as the lists he remembered viewing. Mr. Thibault also acknowledged, however, that when he met with the representative of Distrimed, the representative did not try to mislead him into thinking that he was a Dispill representative or that he was selling Dispill products, and never falsely and misleadingly presented Distrimed's products; it was clear to him at the time that they were two distinct companies.

93 Counsel for the Plaintiff by Counterclaim argued that the Court ought to draw an adverse inference from the failure of the Defendants to the Counterclaim to call Mr. van Gheluwe in order to contradict any of Mr. Thibault's evidence. In response, counsel for the Defendants to the Counterclaim submitted that there was no reason to call Mr. van Gheluwe as a witness since there was no evidence of wrongdoing to be rebutted; indeed, Distrimed's counsel are of the view that Mr. Thibault was a very credible witness, that he was the only one of Richards' witnesses in a position to give non-hearsay evidence of the misrepresentations or false statements allegedly made by Distrimed, that he gave clear and precise answers and that the weight of his evidence should be considered high. I shall say more about his testimony when discussing the allegations of misrepresentation in the analysis portion of these reasons.

b) Distrimed's Fact Witnesses

i. Claude Filiatrault

94 Mr. Claude Filiatrault was examined on April 5, 2013, with the examination continuing and the cross-examination taking place from April 8 to 9, 2013.

95 Mr. Filiatrault is the unique shareholder of the corporate Defendants to the Counterclaim, and also a Defendant to the Counterclaim in his personal capacity. He is the common thread between each of the named defendants in this case and was one of three officers of Dispill Inc. from 1997 to 2002, before he and Mr. Poirier sold their shares to Mr. Bouthiette. Following a two-year term instituted by a non-compete agreement, he started Distrimedic with Mr. Robert Poirier, with whom he controlled or directed each of the other corporate defendants (with Alpha and La Société amalgamating last year). His testimony was presented as relevant to Dispill background and his activities at Dispill, Distrimedic's background, activities, products and operations, and the activities, products and operations of other Defendants to the Counterclaim.

96 Mr. Filiatrault explained that the corporate Defendants to the Counterclaim share certain resources for efficiency, resource management and fiscal purposes, but are operated as distinct entities that are each responsible for separate commercial activities. Each of these companies keep distinct and clearly separated financial records and account to one another for the value of shared resources. For example, there is only one payroll for all the employees of the three companies; La Société is responsible for paying all the employees and then invoices the other two companies for the amounts paid in salaries and commissions. Mr. Filiatrault also explained that rebates are sometimes given to a client of one company in recognition of the fact that it also purchases products of the two other companies, as a way to build loyalty.

97 Mr. Filiatrault suggested that in recent years pharmacists have become more and more sophisticated as consumers and managers, that they share commercial information, and that those working for banners have commercial support from trained staff and even receive training in business negotiation. He also explained the roles of the banner corporations versus the franchised pharmacies in deciding which products are bought and at what price. He touched upon the early days of Dispill Inc. and its business relationship with Novopharm.

98 Mr. Filiatrault mentioned that Dispill Inc.'s executives, at the time of marketing their product, never contemplated using the colour code as a trade-mark, but rather always viewed it as a safety feature of their products. He also spoke of the pharmacists as the key targets of the company's publicity and marketing efforts, and of an aborted consumer-wide promotional campaign that Dispill had to discontinue because pharmacists were not able to respond to the consumers' demand.

99 As for the selection of information appearing on each cell, Mr. Filiatrault did not remember how it was made but was of the impression that it was originally selected by Mr. Bouthiette as a result of his collaboration with a pharmacist; he added that the Ordre des Pharmaciens du Québec would also have a practice code specifying the minimum amount of information to appear on the label of drug containers sold to customers. He testified that Bouthiette's nephew programmed the initial DOS software, and that some input was also received from pharmacist and software companies as to the selection of fields and operation of the DOS software. He then went through some of the computer software programs that had been used through the years to transfer the information about patients in the pharmacists' data banks to the Dispill label sheets. In this respect, he introduced into evidence two agreements, one between Dispill Inc. and DLD and the other between Dispill Inc. and InfoPharm, relating to the installation of the DOS software and the creation of a "bridge" from the DOS software to the DLD and InfoPharm platforms. To his knowledge, no copyright for these applications was ever registered.

100 Mr. Filiatrault then went on to explain the circumstances surrounding the sale of his and Mr. Poirier's shares to Mr. Bouthiette, and the non-competition agreement clause whereby Mr. Filiatrault and Mr. Poirier agreed that they would not compete with Dispill for a two-year period beginning September 3, 2002. He stated that they never had any intention to breach that agreement. They also sought the opinion of legal counsel on the basis of the drawing of a new product to determine if they would be infringing the '045 Patent of Dispill Inc. According to that opinion dated March 5, 2003, their drawing would not infringe any of the claims found in the '045 Patent. They then sat on that project until the beginning of 2005, after having incorporated Distrimedic Inc. on September 7, 2004. It took most of 2005 to find a manufacturer and to obtain a good quality prototype of their new product that they would start showing to pharmacists in order to get their feedback. Distrimedic started selling its products in June of 2006. At the time, a box of 500 labels (container-sealing sheets) with 500 blisters (container-defining sheets) would sell for approximately \$380.00, while the equivalent product from Dispill sold for approximately \$460.00.

101 Mr. Filiatrault introduced into evidence a document (JBD 549) compiling all the labels that have been used by Distrimed since November 2005. He admitted that, in November and December of 2005, they printed a small quantity of container-sealing sheets using the same colour scheme as the Dispill Colour Scheme. Mr. Filiatrault stated that approximately 100,000 sheets with that colour scheme were printed, of which about 15 batches of 500 sheets were distributed for free to approximately 11 pharmacies for testing purposes. Mr. Filiatrault claimed that these sheets were later destroyed and were never used by pharmacists to sell to their clients. It should be noted that Distrimed used the same product codes (ETCA-500 and ETCP-500) for labels incorporating, at different points in time, the allegedly infringing colour scheme and its current colour scheme.

102 Mr. Filiatrault also mentioned that Distrimed never used catalogues, but only price lists with illustrations of their products; they now use an internet website to show their products to pharmacists. He also insisted that he never told his clients that they could use Distrimed products with Dispill accessories, because they had their own accessories and products that they wished to sell and because at least some of Dispill's accessories do not fit with Distrimed products. He explained that some of Dispill's customers changed to Distrimed because their products are more functional (claiming larger cells, more legible labels, more ergonomic trays), because of their customer service and because their prices were competitive. He added that a decision to change from one product to another is usually not made on the spur of the moment and may take days, if not weeks, depending on the decision-making process in each pharmacy and the amount of time required to acquire the new computer software.

ii. Robert Poirier

103 Mr. Robert Poirier was examined, cross-examined and re-examined from April 11 to 12, 2013. He was presented to provide additional information on most of the areas addressed by Mr. Filiatrault.

104 Mr. Poirier is a Defendant to the Counterclaim in his personal capacity and was a shareholder of the corporate Defendants to the Counterclaim until 2010, as well as being one of three officers of Dispill Inc. from 1997 to 2002. Mr. Poirier actively participated in the development of the Dispill product and, although he has been absent from the day-to-day business of Distrimed since 2006 and completely absent from the business since 2010, his testimony confirmed and supplemented that of Mr. Filiatrault and was helpful in providing background information about the start of Dispill Inc.

105 Among other things, Mr. Poirier confirmed that Dispill's executives never intended to use the Dispill Colour Scheme as a trade-mark but rather only viewed it as a functional element of their product, as an indication of the periods of the day when pills should be taken. He also corroborated Mr. Filiatrault's testimony that Mr. Bouthiette's nephew programmed the DOS software used to print the information on the Dispill label sheets. He confirmed that Distrimed distributed small quantities of the container-sealing sheets bearing Distrimed's Original Colour Scheme as a prototype to no more than 15 of its client pharmacists; these sheets were later destroyed and were never used by pharmacists to sell to their clients.

106 Mr. Poirier denied having misrepresented Distrimed as being Dispill, or encouraged Dispill's clients to buy Distrimed and use it with Dispill accessories. Finally, Mr. Poirier testified that the software written in the DOS language, which was used originally as the Dispill Label Form, has ceased to be used since the late 1990s or early 2000s. According to Mr. Poirier, neither he nor Mr. Filiatrault had any involvement in the execution of the mandate given to DLD to create the Distrimed Module, which permits users of the Mentor software to print on to Distrimed's container-sealing sheets.

iii. Paul van Gheluwe

107 Distrimed elected not to call Mr. Paul van Gheluwe, a prior Dispill employee and sale representative for Distrimed. Counsel for Distrimed intended to have Mr. van Gheluwe present a response to allegations of misrepresentation, but concluded that the evidence presented by Mr. Thibault was not sufficient to support Richards' case so no further testimony was needed.

V. Expert Witnesses

108 Richards presented expert witnesses to provide opinions on the patent-related issues, going to the claims of copyright and trade-mark infringement, and in support of its claims for various associated remedies.

109 Distrimedic presented both patent and financial experts to respond to the submissions made by Richards' experts in both those regards.

a) Richards' Expert Witnesses

110 Richards presented Mr. Koen de Winter as an expert in support of its patent-related claims, Dr. Tarek Abdelrahman for his opinions regarding computer software (in support of the copyright infringement claims), Ms. France Morissette as an expert user of the Dispill product and as a fact witness with respect to the product's colours (going to the trade-mark infringement claims), and Mr. James McAuley as a financial expert in support of the associated claims for remedies.

i. Koen de Winter

111 Richards tendered Mr. de Winter as an expert on the state of knowledge of a person skilled in the art to which the '045 patent relates and, as such, to give opinions regarding its interpretation and to comment regarding infringement of that patent and the validity of certain claims in issue.

112 Mr. de Winter studied ceramic technologies in 1962 and completed his education in industrial design. He designed numerous industrial objects and is a named inventor of more than 25 patents. He has also won several awards in industrial and graphic design, and has been a professor at the Université du Québec à Montréal since 1985. His expertise was not challenged.

113 Mr. de Winter was examined and cross-examined from April 4 to 6, 2013. He presented two affidavits: the first dated September 30, 2010, and the second, dated February 12, 2011. The first affidavit set out the issues addressed and Mr. de Winter's qualifications, his opinions on the patent, the person ordinarily skilled in the art, potential infringement, the disclaimed claims, anticipation and obviousness. The second affidavit commented primarily on two additional Distrimedic mounting trays and a container-sealing sheet that were received after the completion of his first report.

114 According to Mr. de Winter, the person of ordinary skill in the art ("POSITA") to whom the '045 Patent is addressed is an industrial designer with at least one year of experience in product design, with formal education from either a community college or a university together with at least one year of relevant practical experience with manufacturing and production technologies. The POSITA would also have knowledge of limitations associated with production and be familiar with industrial processes, including vacuum forming techniques.

115 The '045 Patent contains 27 claims, namely Claims 1-14 and Claims 17-28. A disclaimer was filed in respect of Claims 15-21. Claims 1, 11, 15, 22, 26 and 28 are independent claims. The remainder are dependent claims.

116 Claim 1 includes a recessed support, a container-defining sheet, a container-sealing sheet and a positioning means. With respect to the "positioning means", Mr. de Winter opines that the engagement of the protuberance and holes is particularly important with respect to the container-sealing sheet since the self-adhesive material on the bottom surface must be positioned, shaped and sized to fit over the flanges of the containers of the container-defining sheet. In addition, a positioning means that functionally permits the container-sealing sheet be in precise superposition (with very small tolerances) on top of the container-defining sheet which is an essential element of the invention. If it were not in precise superposition the container-sealing sheet would tear when individual cells were separated, limiting its desired use. The plastic and paper elements must be in the exact same position, allowing the user to bend it a few times and break it off. Mr. de Winter notes that the positioning means is referred to several times in the specification, including on page 3, line 13; page 9, lines 1-4; page 10, lines 8, 13 and 18; page 11, line 22; and page 15, line 22.

117 Mr. de Winter further states that the engagement of the protuberance and hole prevents the container-sealing sheet from sliding horizontally (in 2 dimensions) up and down, sideways and at all other angles. This acts to hold the self-adhesive strips on the bottom of the container-sealing sheet in alignment with the flanges of the container-defining sheet so that the container-

sealing sheet is ready to be applied to the container-defining sheet. Claim 1 refers to "at least one other hole provided in the container-sealing sheet"; however, no particular shape of the "hole" is specified. While the drawings in the '045 Patent show two round holes, the hole need not necessarily be round, as that shape would not serve the required purpose if only one round hole and one round protuberance were used; without additional support, the container-sealing sheet could rotate around the protuberance, which would not secure the bands of the container-sealing sheet in exact superposition on top of the flanges of the container-defining sheet.

118 In order to be functional, the chosen protuberance must also have a certain shape and size to engage the hole. If it is too small, it may not retain the container-sealing sheet, as the tolerances of the container-sealing sheet positioned on the container-defining sheet would be too large. Since the paper is flexible, there must be enough contact with the protuberance to maintain the sheet in place. In Mr. de Winter's view, therefore, the words "hole" and "protuberance" should be understood in relation to their stated functions, i.e., protuberances extending above the recessed support and the container-defining sheet which engage an edge or edges of the container-defining sheet and the container-sealing sheet, preventing two-dimensional movement of the container-sealing sheet such that the bands of the container-sealing sheet are in exact superposition on top of the flanges of the container-defining sheet.

119 With regards to Claim 2, Mr. de Winter explained that as with Claim 1, the container-sealing sheet would be rendered secure.

120 With regards to Claim 3, Mr. de Winter opined that an essential function of the container-defining sheet was to be able to break it up into individual containers. This was best done on a practical basis if the breaking lines were straight in both directions. This in turn required the containers to be positioned in straight horizontal and straight vertical rows, as is the case with the Distrimedic pill dispenser.

121 With regards to Claim 4, Mr. de Winter opined that printing appeared on the top surface of the container-sealing sheet of the Distrimedic pill dispenser, with the printing corresponding with each of the containers of the container-defining sheet and providing information about the material to be placed in each container.

122 With regards to Claim 5, Mr. de Winter explained that the Distrimedic pill dispenser also had 28 recesses and corresponding containers in four columns and seven lines/rows.

123 With regards to Claim 6, Mr. de Winter explained that the Richards pill sorter device has first and second stackable panels and all the features and functional characteristics described in Claim 6. In particular, it has a first panel in which the openings in the bottom wall of the half-bottomed recesses are positioned and shaped like the containers of the container-defining sheet. The set of half-bottomed recesses has a flat bottom wall that when stacked extends above the containers of the container-defining sheet. The bottom wall is sized to allow a pill to fall into the container below. It has a second panel containing hollow bottom recesses smaller than the half-bottomed recesses of the first panel and positioned to fit onto the half-bottomed recesses when the second panel is stacked and slid over such recesses in unison from the half-bottom recess to the opening in such recess, permitting pills to be placed in the half-bottomed recesses and dropped into the containers below.

124 With regards to Claim 7, Mr. de Winter commented that the openings in the bottom wall of the half-bottomed recesses occupy about half of the surface area of said bottom wall and are on one side.

125 With regards to Claim 8, Mr. de Winter commented that the Richards pill sorter has a first panel and second panel and contains all of the features essential to the operation of the kit described in Claims 6-9. Rivets are used and horizontal slots allow the second panel to slide horizontally with respect to the first panel.

126 With regards to Claim 9, Mr. de Winter commented that according to Claim 1 only one protuberance and corresponding hole is required. Claim 9 refers to a particular configuration of the protuberances and the corresponding holes. In order for the kit to be functional, and in order to be a logically formed kit, the hole or holes and the protuberance or protuberances should be shaped and sized in such a way that fit exactly together to locate and stabilize each of the components in the proper position.

127 With regards to Claim 10, Mr. de Winter commented that he read the word "trough" as being "through". Figure 12 of the '045 Patent identified this feature. This describes Richards' items 124 and 208, which contain all of the features described in this claim as being essential to the operation of the device.

128 With respect to Claim 11, Mr. de Winter explained that he read the reference to "contact sealing sheet" as meaning "container-sealing sheet". Using the Distrimedic product in accordance with the procedure shown on the Distrimedic website would constitute the method described in this claim.

129 On Claim 12, Mr. de Winter opined that the method shown on the Distrimedic website is the method described in Claim 12 as printing information on the sealing sheet as shown.

130 With respect to Claim 13, Mr. de Winter explained that if the Richards pill sorter (JBD 20) were used with the appropriately same-sized Distrimedic pill dispenser, then the user would employ this particular method.

131 With respect to Claim 14, Mr. de Winter explained that considering the function of the pill sorter, which is to check each individual pill before it is added to the already existing container, performance of the method of Claim 14 would be inevitable. The Richards pill sorter was used in exactly the same way.

132 The two main problems that the patent seeks to solve are: (1) the alignment of the container-defining sheet with the container-sealing sheet, and (2) avoiding the use of thermostealing. In Mr. de Winter's view, the patent should be interpreted as follows in connection with the Richards and Distrimedic products.

133 Having a dotted line punched, die-cut, on the flange of each container is essential to the design because it is necessary to detach the individual pill containers. There are a variety of options for such dotted lines, such as dots or slots. The number of perforations chosen by a manufacturer will determine how difficult it is for the containers to be separated. Bending the plastic material to tear it, without any perforations, would not be satisfactory as this might temporarily strengthen the plastic, leading to great difficulty in separating it. Detaching the container from the container-defining sheet has the effect of detaching it from adjacent containers.

134 The term "hole" as used in the Patent should not be read literally as a complete circular hole (and there is no particular shape specified), but rather should be understood from a functional point of view in connection with aligning the container-sealing sheet in its proper position. Therefore, the "hole" need not necessarily be round. Page 15 of the Patent, for instance, also envisions other embodiments of the patented product beyond that used by the Dispill device.

135 Mr. de Winter explained that in examining the functionality of the hole and protuberance in the Distrimedic device, one must consider the invention dynamically, as it would be used in practice, as opposed to statically, such as when the plastic blister sheet and label sheet have already been placed in the mounting tray. The two side tabs are very important in easily and quickly locating the plastic blister sheet, which is an important consideration to a pharmacist or other user who fills tens to hundreds of pill dispensers in any one given day. Although the plastic blister sheet is also located by the cavities which fit into the recesses on the mounting tray, that would not be an efficient way of locating the blister sheet. From a dynamic point of view, therefore, the two side tabs perform the same function as the hole and protuberance in the container-defining sheet in the Dispill device. Additionally, as previously described, the label sheet is located by abutting onto the raised protuberances or edges at the top of the Distrimedic mounting tray. One could say that, as in the claim, it "corresponds to and engages the hole". Thus, the raised edges perform the same function as the hole and protuberance in the container-sealing sheet in the Dispill device.

136 The protuberances are essential for the positioning of the container-sealing sheet on the container-defining sheet because they form the connection between the two. The positioning is achieved using a combination of cavities in the container-defining sheets and the edges of the tabs on the container-defining sheet, which enables the container-defining sheet to be suspended. The container-sealing sheet must be slid into position, following which the self-adhesive protection sheet can be pulled off and glued to the container-defining sheet.

137 The Distrimed pill dispenser has a protuberance to engage the edges of the container-defining sheet and container-sealing sheet such that the container-sealing sheet does not move in two dimensions. According to Mr. de Winter, this pill dispenser works in the same way as the pill dispenser of the Patent; the difference in the protuberance used in the Distrimed pill dispenser from the particular protuberances illustrated in the Patent does not have a material effect upon the way the pill dispenser works. The Distrimed pill dispenser also has a horizontal strip removed from the bottom surface of the container-sealing sheet exposing a self-adhesive strip to attach to the top surface of the container-defining sheet to supplement the prevention of movement and, additionally, to stabilize it in a third (vertical) dimension. Mr. de Winter is therefore of the opinion that the Distrimed pill dispenser provides the same function as set out in Claim 1 and that, in view of the lack of specific description of shape and size of both the protuberance and the corresponding hole in Claim 1 of the Patent, it does it in the same way.

138 Finally, in Mr. de Winter's opinion, the Braverman Patent does not disclose how to perform or make what is disclaimed and claimed as the invention in the '045 Patent. In his opinion, as of June 21, 1997, the Braverman Patent would have been given very little weight when considering how to obtain a result of the nature described and claimed in the Patent in the relevant field.

139 The Braverman Patent includes spring-loaded pins and a pressure-applying member. The claims in columns 5 and 6 of that patent do not reference the pins as part of the invention claimed. Mr. de Winter noted that in column 4 there appear to be some errors regarding the numbers in the drawing, which correspond to the spring-loaded pins.

140 Mr. de Winter explained that the spring-loaded pins are not used to secure or align the container-sealing sheet to the container-defining sheet in the Braverman Patent, and trial and error would not lead to any such conclusion. In his view, they are simply used to push back the weight that is being applied to the self-adhesive. A pin would, to a person with a mechanical mind, convey the message that it is to push back something because that is what such a pin is usually used for. According to Mr. de Winter, this is confirmed twice in the Braverman Patent, as Braverman twice states that the function of the pins is to eject the pressure-applying member.

141 The pressure-applying member does not serve to align the container-sealing sheet; instead, it serves the function of the roller used with the Distrimed product, i.e., it further presses the container-sealing sheet onto the container-defining sheet. The spring-loaded pins are properly described as guiding the sheet into the desired position, but do not locate the sheet. A person locates the sheet by holding it by hand through a nipped corner. In addition, Column 4, line 45, refers to a liner strip covering the nipped corner, which suggested to Mr. de Winter that the sheet would be held with a finger since the nipped corner is diagonally opposite to the pins, reinforcing his opinion that the pins do not hold the sheet in place.

142 Mr. de Winter concluded that a POSITA would not be led directly and without difficulty to the invention in the claims of the Patent and a POSITA would not be motivated to try such in view of the Braverman Patent. On a view of the whole '045 Patent, it was not something that would be obvious, nor would the improvements from the Braverman Patent to the '045 Patent be obvious. The Braverman Patent is focused on keeping three of the corners in place in order to peel back the sheet. In reconstructing the position of a POSITA for the particular technology, it would not be obvious to that person, on looking at the Braverman Patent, that the key missing part of the invention was the lack of an ability to locate the container-sealing sheet.

ii. Tarek Abdelrahman

143 Dr. Abdelrahman is a professor in computer engineering at the University of Toronto. Dr. Abdelrahman was presented to offer expert opinion on matters related to two computer programs. More specifically, Richards asked him to offer expert opinion on:

The relationship between the DOS and Windows operating systems in so far as this relationship pertains to the continuing value of the information provided in the form of the Richards DOS program when the Mentor pharmacy management system is used to print label sheets.

The significance of the Mentor pharmacy management program having separate print buttons, one for Dispill labels and one for Distrimed labels, in terms of how the software works.

[Dr. Abdelrahman Expert Report, Trial Exhibit 545, at para 2.]

144 The examination of the various documents mentioned in Dr. Abdelrahman's expert report led him to conclude the following:

- The difference in the "look" between the DOS program and the Windows program is due to the different user interfaces used by the DOS and Windows operating systems.
- In spite of this difference in look and in relation to the printing of label sheets, the information provided to the form of the DOS program is necessary for the Windows program to print Dispill or Distrimed label sheets.
- Having two print buttons in the Windows program is significant only in that the buttons indicate to the program which program module to execute, and thus to format and print information based on the type of label sheet.

145 The Richards DOS program has a Medication Management screen that collects input related to a medication: prescription number, DIN, medication name, medication type (antibiotic, narcotic or regular), medication strength and format, number of renewals, date of last renewal, prescribed dosage, and doctor's name. The prescribed dosage is indicated using the number of pills to take in the morning, midday, at dinner time and at bedtime. The program also has a Label Printing screen that collects input related to the patient: name, room number, table number, patient language, file number, the start of the prescription, the start date of the label sheet and the number of days. Finally, the program has a Configuration screen that collects the pharmacist's name, address and phone number, as well as configures the printer parameters.

```

Configuration panel for DISPILL
=====
Pharmacist's language : E      (E)nglish or (F)rench
Compressed Printing   : I      Inactive
Uniform Printing      : N

*** List of printer Parameters ***
Dosette Printer : LPT1
Dosette Emulation : LASER HP 1100

Patient File Printer : LPT1
Patient File Emulation : LASER HP 1100

*** Pharmacist's Address ***
Pharmacist's Full Name : PHARMACIE LAGANIERE
Civic Address : 49 RUE DE LA SAPIENIERE 303
City, Telephone No : GAMBHY, QUEBEC, (450)777-1130

(F1)help (F2)Printer test (F3)Save & quit (Esc)Cancel
(F8)residence Maintenance (F10)next Printer Emulation
    
```

```

[00r] Medication Management
=====
Medical File No : 00010000                               Pill : 1/ 1

Prescription No (Rx No) : 11111111
DIN Number : 12345678
Pill name : AMLODIPINE
Antibiotic/Narcotic/Reg : R
Medication strength : 10MG
Medication format : TABLET

Number of renewals : 3
Date of last renewal : 10-02-2005

Prescribed Dosage :
(1 1/2 TAB (1 1/2) PD (2) SP (2) MS
<----- Line #1 -----><----- Line #2 -----><----- Line #3 ----->

Doctor's Name : SMITH

(F1)help (Page Up)previous (Page Down)next (F9)New...
(F3)Save & quit (Esc)Cancel (F8)Erase
    
```

Graphic P-65

```

(Ovr)                               Data Entry Panel for Label Printing
=====
Start of the Prescription : 2006-01-16  Monday January 16,06
Beginning of the Dosette  : 2006-01-16  Monday January 16,06

Number of days           : 28

-----
Last Name                : DOE                First Name : JOHN
Maiden name              :                   Language of Patient: E  English
Room number              : 100                Medical File No : 00010000
TABLE Number             : 1                 Scheduled Intake : X...

Active Database : DISPILL                      ( <F6> Change database )

<F1>Help  <F2>Print Form <F3>Quit  <F4>Save  <F5>Load/Inp.  <F9>Clear
<F10>Configuration  <F8>Medication

```

Graphic P-66

146 Table 1 of the Abdelrahman Affidavit identifies 14 items to be entered in the form. Paragraphs 24-27 of his affidavit referenced an additional item: time of day. Twelve of these fifteen items were present in the DLD Mentor program as fields available to be entered. He could not verify whether this was also the case for the remaining three items (file no., pharmacist name, pharmacist address/phone); however, he indicated it is possible these are entered during installation of the program at a given pharmacy. Thus, he concluded that the elements of the Dispill Label Form continued in the Windows version.

147 Although there are significant differences in the "look" of the screens of the DOS program and the "look" of the windows of the Mentor programs, these differences are expected because of the different user interfaces employed by the two operating systems (character-based for DOS versus graphics-based for Windows). Although the various windows of the Mentor Windows program collect additional input compared to the DOS program, this input is not produced on the printed labels and does not appear to be relevant for the purpose of printing.

MENTORx Poste #2 Version 19.76 [Pharmacienne: Pierrette, SÉGUIN]

Patient: GINETTE, 3407, VILLAGE MASCOUCHE, P. 57 ans, 450, 966

Code	Qte	Prescrite	Prise	Vigilance	Inté	S	Dates	LP
S 232639	28	OTILOPRAM 20, 20MG, C						
S 232638	55	PARIET, 10MG, COMPRIM						
S 232627	28	CARBODAL D 400 UI, 500						
S 232626	4	FOSAMAX, 70MG, COMPR						
S 232625	28	HYDROCHLOROTHIAZIDE, 25						
S 232624	28	MONOPRIL, 10MG, COMPR						
S 232623	28	SYNTHROID, 0,125MG, C						
S 232629	0	DOXUSATE SODIUM, 100MG						
S 222758	120	FLOVENT HFA, 125MCG/D						
S 222756	200	RATIO SALBUTAMOL, 100M						

Pharmacienne: Pierrette, SÉGUIN
 Médic: (188063) Chaput, Guylaine, Tél: (450) 585-3732
 Prescrite: 30, Date: 28, /s/ comprim le matin durant 7 jours
 Renouv: 5, Radaction: 2006-11-20, puis 1.comprim le matin
 Annul: 94, Destin: 3

rob clau

Complet | 2006-11-23 | 96665 | FN

MENTORx Poste #2 Version 19.76 [Pharmacienne: Pierrette, SÉGUIN]

Patient: GINETTE, 3407, VILLAGE MASCOUCHE, P. 57 ans, 450, 966

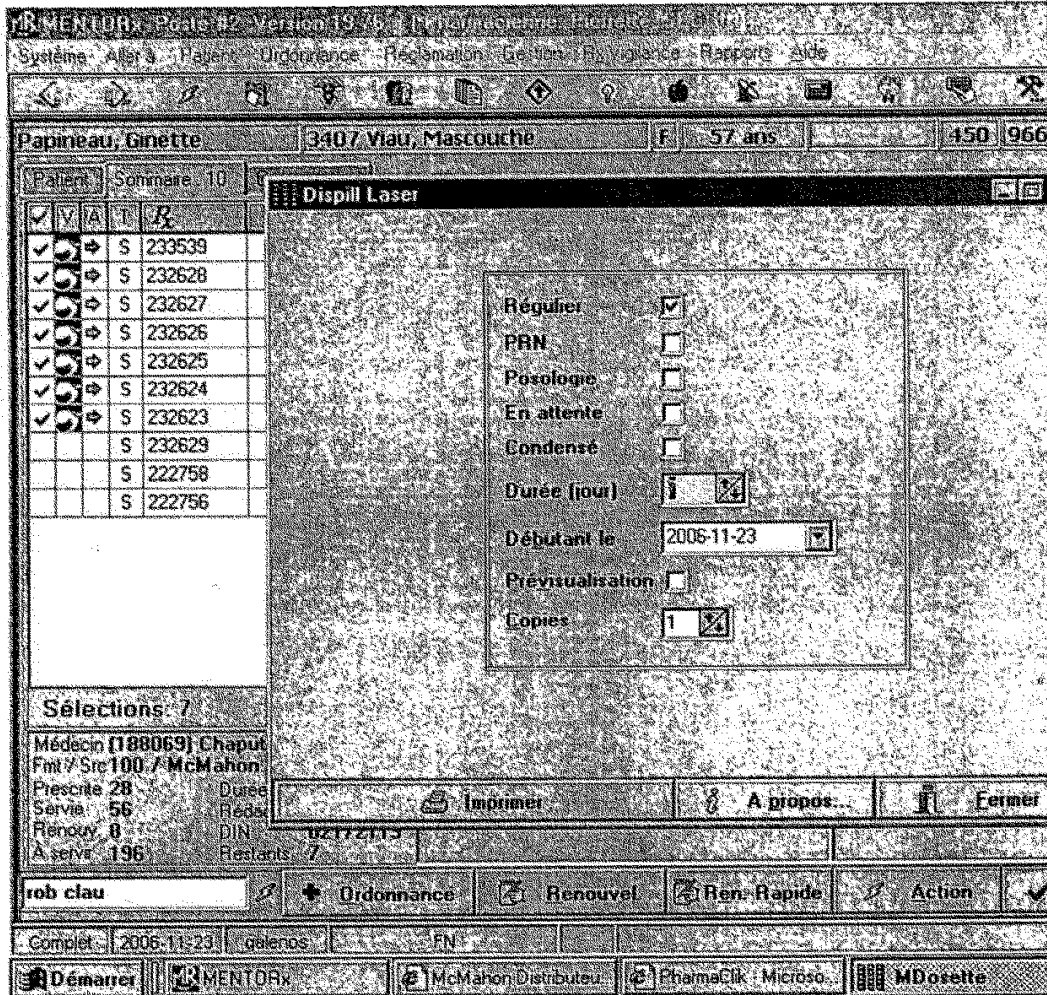
Code	Qte	Prescrite	Prise	Vigilance	Inté	S	Dates	LP
S 232639	28	OTILOPRAM 20, 20MG, C						
S 232638	55	PARIET, 10MG, COMPRIM						
S 232627	28	CARBODAL D 400 UI, 500						
S 232626	4	FOSAMAX, 70MG, COMPR						
S 232625	28	HYDROCHLOROTHIAZIDE						
S 232624	28	MONOPRIL, 10MG, COMPR						
S 232623	28	SYNTHROID, 0,125MG, C						
S 232629	0	DOXUSATE SODIUM, 100						
S 222758	120	FLOVENT HFA, 125MCG/D						
S 222756	200	RATIO SALBUTAMOL, 10						

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 Renouv: 5, Radaction: 2006-11-20, puis 1.comprim le matin
 Annul: 94, Destin: 3

rob clau

Complet | 2006-11-23 | 96665 | FN

Graphic P-67



Graphic P-68

148 Ultimately, the same input information is required to print label sheets from the Mentor program as from the Richards program.

149 To print labels from the Mentor program, the pharmacist selects the medications that are to be printed to the labels and clicks on the action button, which causes a pop-up menu to appear. The pharmacist would then click on the "Imprimer" menu item, which would cause a printing submenu to appear. Within this submenu, there are several printing choices including "Dispill Laser" (which causes a Dispill label sheet to print) and "Distrimedic" (which causes a Distrimedic label to print).

150 Printing a completed label sheet from the program can be accomplished in two ways. First, the formatting for the label sheet can be embedded as instructions in the software module. In the alternative, the program could use a pre-set template with placeholder text that is replaced with the actual information about the particular patient, medication, pharmacist and so on when the label is printed.

151 The Distrimedic sheet size has reverted from A4 back to 8.5" × 11". This makes the layout and format of the Dispill and Distrimedic label sheets substantially similar. Therefore, Dr. Abdelrahman concluded that one of three outcomes is likely to occur: (1) the instructions of the program module that execute when the "Distrimedic" submenu is selected have been updated to reflect the change from A4 to 8.5" × 11"; (2) the program module that executes when the "Dispill Laser" submenu is selected is made to execute when the "Distrimedic" submenu is selected; or (3) the selection of the "Dispill Laser" submenu is used to

print the 8.5" × 11" Distrimed label sheet. In cases (2) and (3), it is important to note that the key information printed on the label sheet would be arranged as on a Dispill label sheet and not in any arrangement specific to Distrimed labels.

iii. France Morisette

152 Ms. Morisette was examined and cross-examined on March 28, after being examined and cross-examined regarding her qualifications. Subject to the qualifications described below and established at trial, she has submitted two expert reports, dated September 13, 2010, and October 14, 2011, respectively.

153 The first affidavit expresses her opinion regarding the commercial effect and usefulness of the Dispill pill dispenser and sets out her qualifications, facts, assumptions and opinions, including with respect to the pill dispenser's ability to provide for the safe administration of medication by non-professional staff. The second affidavit merely brought her experience and qualifications up to date, attaching an updated curriculum vitae.

154 Ms. Morisette, a nurse, was presented as a user of pill dispensers in healthcare facilities and as having knowledge of the usefulness and commercial success of such products and related trade-marks. Distrimed countered that Ms. Morisette was not an expert in marketing, surveys, psychology or other areas relevant to brand recognition, and submitted that her testimony should be accepted for the value of her personal experience only, as she is not a representative of the relevant public for any alleged trade-mark.

155 Ultimately, the parties agreed that Ms. Morisette would only be qualified as an expert to the extent of the following description offered by Richards' counsel:

France Morisette is offered as someone experienced as a user of the relevant devices, i.e. as a skilled worker in the art who can comment on and who understands the problems to be overcome and how different remedial devices might work.

[Morisette, March 28, 2013, at p 43, l. 20 to p 44, l. 3]

156 The parties and the Court further agreed that Ms. Morisette would be admitted as a user who can factually speak to the colours and shapes of the Dispill pill dispenser and other similar dispensers, but not as an expert on trade-mark issues.

157 In Ms. Morisette's experience, the Dispill pill dispenser is effective, efficient and provides a level of safety. It was recommended to 12 of the 14 residences with which she worked. The other two residences prefer to use the unidose system. One of the biggest problems with the unidose system is that there is a greater need for storage. Ms. Morisette also testified that the Dispill colour Scheme provides an easy way of ensuring that non-professionals in particular can administer medications safely. While professional staff may be trained to administer medication, non-professionals such as orderlies generally are not, and Dispill's colour-coding system provides a way for such non-professionals to ensure they are administering the correct medication. She indicated that she prefers a colour-coding system when non-professional staff administer medication. Finally, she testified that the colours used for the Dispill label are well known to the nursing homes with which she is in contact, and that she was not aware of anyone other than Richards Packaging Inc./Dispill who use those colours in connection with pill dispenser labels.

158 Counsel for Distrimed acknowledged that they had no reason to dispute Ms. Morisette's credibility or that of her testimony. In their view, Ms. Morisette's testimony was very useful in understanding the functional features of the Dispill product, including the Dispill Colour Arrangement, from the standpoint of nurses responsible for insuring the safe administration of medication in nursing homes. They further noted that Ms. Morisette confirmed the usefulness of having certain information printed onto each individual cell of the Dispill product, in addition to confirming that nursing homes and pharmacists participate in the selection of such information to suit their specific needs [Morisette, March 28, 2013, at p 56, ll. 13-17 and p 59, l. 1 to p 61, l. 4].

159 In cross-examination, she indicated that patients do not choose the pill dispensers and do not generally use the pill dispenser without assistance. Indeed, pill dispensers are never remitted to residents of nursing homes, and only the small blister with the medication specific to a given time of day is actually given to the patient.

iv. James McAuley

160 Mr. McAuley, a partner and senior vice president with KPMG LLP, was examined and cross-examined from April 3 to 4, 2013, testifying as an expert on accounting issues. At trial his expertise was defined as follows:

[W]e ask that Mr. McAuley be admitted as an expert on damages analysis and quantification and in accounting and profits analysis and quantification.

[McAuley, April 3, 2013, at p 220]

161 Prior to trial, he submitted a single expert report, dated February 9, 2011. In the report, Mr. McAuley describes KPMG's mandate as follows:

We have been asked to quantify the losses suffered by Richards as a result of the alleged patent infringement and copyright infringement by Distrimed and the other defendants to the counterclaim. We have also been asked to calculate an accounting of profits regarding the copyright. We understand that this report may be used by the Court to help assess Richards' losses. [...]

[McAuley Expert Report, February 9, 2011 at p 4, s. 2.3.]

162 Mr. McAuley was instructed to prepare a calculation for the potential losses suffered by Richards under the alleged patent infringement and an estimate of the accounting of profits under the alleged copyright infringement. When Distrimed entered the market, it is alleged that it was offering a patent-infringing product at a lower price. It is alleged that Distrimed's lower price created a competitive imperative for Richards to reduce its prices in Quebec. It is this reduced price that forms the basis for the claimed loss of income. Since the information necessary to appropriately review and quantify Richards' alleged loss of customers to Distrimed was not available, Mr. McAuley did not estimate that head of loss of income. He did, however, prepare an estimate of the profit that Distrimed earned on the sale of labels, as this would provide an estimate of Richards' losses under copyright law.

163 In calculating the loss of past income due to price suppression, KPMG compared Richards' prices, net of rebates, to those of Distrimed. Prior to Distrimed's entry into the market, Richards' net unit prices were in the range of \$260 and \$183 for blisters and labels, respectively. Richards' net prices began to decrease in 2006 after Distrimed entered the market with estimated net unit prices of about \$174 and \$56 for blisters and labels, respectively.

164 In estimating the loss due to reduced unit prices, Mr. McAuley calculated Richards' actual average unit price prior to any rebates in Quebec by dividing the total annual gross sales for blisters and labels in Quebec by the number of units of each sold in Quebec each year. Assuming that, but for Distrimed's entry in the market, the average selling price in Quebec would have mirrored the selling price in the territories other than Quebec, Mr. McAuley adopted the average selling price in the other territories as the assumed or expected unit price that Richards would have used in Quebec. The difference between the actual unit price and the assumed/expected unit price had Distrimed not been in the market represents the estimated unit price reduction in each year. To calculate the total loss due to reduced prices each year, the unit price reduction is multiplied by the actual number of units sold in each year. Mr. McAuley's calculations show that Richards' actual average unit price of blisters and labels in Quebec began decreasing in 2006.

165 Increased sales by reason of diminution of price is also a factor that must be taken into account in a price suppression analysis. Mr. McAuley considered in his analysis the possibility that Dispill's increase in sales from 2008 to 2009 would have been due to the lower price offered by Dispill for its pill dispenser, but explained that the sales volume history did not show that type of price sensitivity in the market and attributed the growth to sales effort, penetration and marketing by Dispill.

166 Mr. McAuley assumed that but for Distrimedic's entry into the market, the average rebate per unit in Quebec would have remained at the same level it was at in Quebec in 2005, prior to Distrimedic's entrance into the market. Using this approach, he calculated that the total loss of income (up to December 31, 2010) is between \$6,112,100 and \$6,594,500. He added that this loss would have continued for two more years, to 2013, and using the loss for the year 2010 as a proxy for the years 2011 and 2012 (an incremental loss of approximately \$1.6 million), this would bring Richards' total loss close to \$10 million.

167 With respect to an accounting of Distrimedic's profits for the purpose of calculating the damages under the alleged copyright infringement, Mr. McAuley employed the differential cost approach, which involves calculating the contribution margin by deducting the estimated variable costs related to labels from the revenue from labels, net of sales discounts.

168 The Defendants to the Counterclaim submit that Distrimedic is effectively a "one-product company", the argument being that if they had not sold the labels, they would not have sold blisters, with the two products constituting the majority of all sales. Thus, the approach taken by the expert called by Distrimedic on this question was to take Distrimedic's net income and divide it among blisters (44.29%) and labels (55.71%) to arrive at the profits made from labels. As a result of a "hot-tubbing" exercise involving Mr. McAuley and Distrimedic's expert, Mr. Levi, Mr. McAuley was satisfied with using this approach so long as an adjustment was made for three types of costs that, in his opinion, should not be deductible in this case: i) income taxes; ii) professional fees; and iii) market development costs related to Europe. On that basis, Mr. McAuley arrived at an amount of \$552,972 as Distrimedic's total profit for labels.

169 In addition to the accounting for profits, the remedy under s. 35 of the *Copyright Act*, RSC 1985, c C-42 (as amended by the *Copyright Modernization Act*, SC 2012, c 20) allows recovery of financial loss where a plaintiff is forced to reduce the price of its product to compete. According to Mr. McAuley, the total loss due to price suppression for labels, already calculated under patent infringement, would amount to \$2,707,372 (low estimate) or \$2,938,332 (high estimate). He also explained that this calculation was made to December 31, 2010, and that this loss would have continued for two more years. Using the loss for the year 2010 as a proxy for the years 2011 and 2012 (an incremental loss of approximately \$712,000), this would bring Richards' total loss close to \$4.1 million.

170 Finally, Mr. McAuley calculated the loss related to the alleged trade-mark passing off. The total estimated gross revenue of the labels allegedly subject to the trade-mark passing off is \$62,000. Applying Distrimedic's contribution margin related to labels (as calculated for the accounting of profits in copyright infringement), he calculated that Richards suffered a loss of \$49,000 on the sale of these labels.

b) Distrimedic's Expert Witnesses

171 Distrimedic presented only two expert witnesses: Mr. Claude Mauffette regarding the various patent-related issues and Mr. Philip Levi regarding Richards' financial claims going to remedies.

i. Claude Mauffette

172 Distrimedic presented Mr. Mauffette as an expert on patent issues. He was examined and cross-examined from April 9 to 10, 2013. His expertise was defined as follows:

[W]e would submit Mr. Mauffette as an expert on the state of knowledge of a person skilled in the art to which the patent in suit relates so as to give opinions regarding how the invention described in the patent works, the meaning of terms used in the patent, including interpretation of the claims, the relevance of prior art related to the patent in suit and whether Distrimedic's products incorporate the essential elements of those claims.

[Mauffette, April 9, 2013, at pp 130-131]

173 Mr. Mauffette graduated in sculpture and industrial design. He is a member of the Association des designers industriels du Québec since 1986. He is the named inventor of a number of industrial products, and he has been awarded a number of

prizes and scholarships. He teaches part-time at the Université de Montréal, and has also been a lecturer at the Université du Québec à Montréal between 1993 and 2000.

174 Mr. Mauffette submitted an expert report, dated July 14, 2011, prepared in French, setting out his experience, his mandate, the materials relied upon, and his opinions regarding the '045 Patent, the Distrimedic product, and the Braverman Patent.

175 Richards did not challenge Mr. Mauffette's expertise, although it did move at trial to have Mr. Mauffette testify in English, given that he is fluently bilingual. This motion was quickly dismissed, on the basis of both of section 133 of the *Constitution Act, 1867* (UK), 30 & 31 Vict, c 3, and of the *Official Languages Act*, RSC 1985, c 31 (4th Supp), ss 14-20: see also *Blaikie c. Québec (Procureur général)*, [1979] 2 S.C.R. 1016 (S.C.C.).

176 Mr. Mauffette testified that it does not take any particular skills to understand certain aspects of the '045 Patent, such as the essentiality of the claimed protuberances. However, he clearly indicated that his opinion was based on his instructions to give the claims a purposive construction.

177 According to Mr. Mauffette, the '045 Patent describes a system for preparing a pill dispenser. As shown in Figure 7 of the Patent, the system comprises a tray having a number of evenly spaced apart recesses, that is used to support a container-defining sheet made of clear plastic and itself having a corresponding number of evenly spaced apart cavities embossed therein. Once filled as prescribed, the container-defining sheet is sealed by a self-adhesive container-sealing sheet upon which has been printed required information about the prescription such as the names of the patient and the pharmacist, the date, and the medications in each container.

178 He indicated that in Claims 1, 11 and 22, as well as the claims dependent thereon, the positioning means contemplates "at least one upwardly projecting protuberance provided on the top surface of the recessed support" and "at least one hole provided into the container defining sheet and at least one other hole provided in the container sealing sheet". He added that a hole implies an area without material surrounded by material. For example, a tennis racquet has a hole within the frame, whereas a ping pong bat has no hole.

179 He testified that in Claim 15, as well as the claims dependent thereon, the positioning means contemplates "at least one upwardly projecting protuberance provided on the top surface of the recessed support" and "engaging means provided on the container defining sheet and other engaging means provided on the container sealing sheet." The engaging means could be a hole or something other than a hole that engages at least one upwardly projecting protuberance. In his view, nothing in the '045 Patent suggests that the inventor did not consider the positioning means provided on the container-defining sheet and on the container-sealing sheet to be essential elements. Moreover, nothing in the '045 Patent suggests that, in Claims 1, 11 and 22, the inventor did not consider the upwardly projecting protuberance(s) and the holes to be essential elements.

180 Mr. Mauffette testified that the recessed support of the Distrimedic system does not include any upwardly projecting protuberance to correspond to and be engaged by any holes. The container-sealing sheet and the container-defining sheet are aligned and fixed together in a manner that is materially different from that described and claimed in the '045 Patent. As a result, it is his position that the Distrimedic product doesn't incorporate any of the essential claims of the '045 Patent, since the container-defining sheet has no hole or other engaging means to engage corresponding protuberance(s) in the support tray.

181 Finally, Mr. Mauffette is of the view that the Braverman Patent describes a pill-dispensing device similar in many ways to the Distrimedic product. It employs a tray with recesses, which receives and holds a container-defining sheet with corresponding cavities. Once the chambers are appropriately filled, a container-sealing sheet with an adhesive coating covers them. Accordingly, the Distrimedic system and the system described in the Braverman Patent work in essentially the same way.

ii. Philip Levi

182 Mr. Levi was presented as an expert on financial issues. He was examined, cross-examined and re-examined from April 10 to 11, 2013, then subsequently took part in a "hot-tubbing" of witnesses together with Mr. McAuley on April 11, 2013, as mentioned above. He submitted a report dated July 8, 2011, that describes his expertise and mandate, sets out his

analysis regarding Dispill's changing product line and the alleged losses on its original and new product lines, and states his conclusions and opinion.

183 Distrimedic described Mr. Levi's expertise as follows:

[W]e would submit Mr. Levi as an expert on the analysis of financial statements and the analysis and quantification of damages and profits.

[Levi, April 10, 2013, at pp 118-119]

184 In a section of his report describing his mandate, Mr. Levi states that he was engaged by Distrimedic:

without limiting any specific areas for review, to provide an expert opinion in connection with the estimated damages alleged to have been suffered by Richards, as calculated by KPMG in their report dated February 9, 2011

[Levi Expert Report, April 10, 2013, para 1.2.1]

185 Based on information Distrimedic obtained during the testimony of Mr. Glynn regarding the meaning of certain product codes, Mr. Levi submitted a revised version of his report on April 2, 2013. Based on further information learned during the testimony of Mr. McAuley regarding the association of volume discounts and rebates in his report, Mr. Levi undertook to further revise his numbers by April 19, 2013, submitting a second revised expert report that day.

186 Distrimedic notes that although Mr. Levi's expertise was not challenged, Richards attempted to attack his credibility during its cross-examination. In particular, Richards questioned Mr. Levi regarding his involvement as a witness in three prior cases. I agree with counsel for Distrimedic that none of the cases raised reflected on Mr. Levi's credibility as an expert in the present case.

187 While Mr. McAuley treats all of Richards' blister products and all of Richards' labels in the same way, Mr. Levi differentiates between Richards' original product line and its new product line. Mr. Levi treats as original all products that were sold before Distrimedic entered the market in 2006. All other products and those with an extra inch of height are treated as new. It appears that the new product line quickly took over the majority of Richards' sales of the products in issue. According to Mr. Levi, it is not proper to group both product lines together for purposes of determining Richards' alleged losses based on price reductions, as was done by Mr. McAuley. In his view, it is only necessary to look at those products that existed at the time that Distrimedic entered the market to determine the impact of reduced pricing for sales due to Distrimedic's entry into the market.

188 Mr. Levi also questions one of the assumptions made by Mr. McAuley, that the market in Quebec would mirror the market in territories outside of Quebec. In Mr. Levi's view, such an assumption ignores the possible impact of legislation introduced in Quebec in 2005 and 2006 to limit rebates and other benefits that could be offered to pharmacists in connection with pharmaceuticals. The impact of the reduction of benefits offered to pharmacists in Quebec (previously as high as 50%, now restricted to 20%) was substantial, and would necessarily lead pharmacists to press for bigger profit margins from other products to make up the difference.

189 Mr. Levi also disagrees with another assumption used by Mr. McAuley, namely that, but for Distrimedic's entry into the market, Richards' average selling prices for blisters and labels in Quebec would have increased or decreased at the same rate as those outside Quebec. Mr. Levi points out that Richards' sales in Quebec have always been much higher than outside Quebec, and that Richards' sales in Quebec grew at a healthy pace during the period in question despite competition from Distrimedic.

190 Another source of debate between Mr. Levi and Mr. McAuley is with regard to the treatment of volume discounts as rebates for the purpose of calculating the amount of price suppression. Mr. McAuley treats all discounts as rebates, whether they are volume discounts, promotional prices or other types of rebates. Mr. Levi notes in his Revised April 19, 2013 Report that the McAuley Report makes no reference to volume discounts, and includes those discounts in his calculations. As he explained during his testimony, sales using the basic product codes, those without the *ESC or *PR suffix, appear to reflect Richards' price list. The *ESC suffix appears to reflect volume discounts, and the *PR suffix appears to reflect a promotional price that

was offered only in Quebec. In Mr. Levi's view, volume discounts and discounts for purchase of other products such as vials (reflected by product codes with a *ESC suffix) are not related to competition from Distrimed and, therefore, should not be considered in calculating any loss of income Richards may have suffered due to Distrimed's entry into the market. In his report, Mr. Levi applies these same assumptions to calculate the alleged loss of future income.

191 Mr. Levi also disagrees with Mr. McAulay's assessment of Distrimed's profits from the sales of its labels. He points out that Distrimed is a single-product company whose product involves both blisters and labels, and that the company cannot sell one consumable without the other. All expenses of the company are relevant to its revenues, and therefore all of its expenses should be considered when calculating profits. Mr. Levi calculated profits related to labels by taking Distrimed's cumulative profits that relate to labels as a fraction of its total profits, i.e., 55.71% of about \$116,000, yielding a figure of about \$64,000. This figure was later raised to about \$85,000 after the two experts met.

192 Finally, Mr. Levi assessed the alleged loss of past and future income on the new product line applying the same methodology. The results of his calculations for alleged past losses due to price suppression and increased rebates for the new product line amount to \$1,889,000, and for alleged future losses to \$1,723,400 (scenario 1), \$2,283,600 (scenario 2) or \$2,841,700 (scenario 3).

VI. Analysis

a) Patent

193 The patent-related issues as set out by Prothonotary Morneau in his September 28, 2011 Order raise questions of patent construction, infringement, validity of the disclaimer, and invalidity arising from anticipation or obviousness in light of the United States Braverman Patent described in the facts section (Part II), above. Each of these issues will be addressed in turn below.

i. Patent Construction

194 It is well established that any assessment of infringement and/or invalidity of a patent requires that the Court first construe the claims of the patent at issue to ascertain the invention defined therein and the scope of the monopoly: *Whirlpool Corp. v. Camco Inc.*, 2000 SCC 67, [2000] 2 S.C.R. 1067 (S.C.C.), at para 43 [*Whirlpool*]

195 It is the language of the claims, properly construed, that defines the patentee's exclusive rights and establishes the basis for all infringement and invalidity inquiries. The following principles set out by the Supreme Court of Canada constitute the starting point of any patent infringement/invalidity analysis:

- (a) The *Patent Act* promotes adherence to the language of the claims.
- (b) Adherence to the language of the claims in turn promotes both fairness and predictability.
- (c) The claim language must, however, be read in an informed and purposive way.
- (d) The language of the claims thus construed defines the monopoly. There is no recourse to such vague notions as the "spirit of the invention" to expand it further.
- (e) The claims language will, on a purposive construction, show that some elements of the claimed invention are essential while others are non-essential. The identification of elements as essential or non-essential is made:
 - 1) on the basis of the common knowledge of the worker skilled in the art to which the patent relates;
 - 2) as of the date the patent is published;
 - 3) having regard to whether or not it was obvious to the skilled reader at the time the patent was published that a variant of a particular element would *not* make a difference to the way in which the invention works; or

4) according to the intent of the inventor, expressed or inferred from the claims, that a particular element is essential irrespective of its practical effect;

5) without, however, resort to extrinsic evidence of the inventor's intention.

(f) There is no infringement if an essential element is different or omitted. There may still be infringement, however, if non-essential elements are substituted or omitted.

Free World Trust v Électro Santé Inc, 2000 SCC 66, [2000] 2 SCR 1024, at para 31 [*Free World Trust*]

196 The primacy of the claims language was clearly rooted deeply in our jurisprudence before *Free World Trust c. Électro Santé Inc.* [2000 CarswellQue 2728 (S.C.C.)], and Canadian courts have long rejected the idea that claims construction ought to look to substance rather than form to protect the inventive idea underlying the claim language. Subsection 27(4) of the *Patent Act*, conveys this notion with the following language: "The specification must end with a claim or claims defining distinctly and in explicit terms the subject-matter of the invention for which an exclusive privilege or property is claimed". For that reason, the usual rule will be that "what is not claimed is considered disclaimed" (*Whirlpool Corp.*, above, at para 42).

197 In other words, the ingenuity of a patent lies not in the identification of a desirable result, but in teaching one particular means to achieve it. The claims cannot be stretched to allow the patentee to monopolize anything that achieves the desirable result. To take an example given by the Supreme Court in *Free World Trust* (at para 32), it would not be legitimate to obtain a patent for a particular method that grows hair on bald men and thereafter claim as infringing *anything* that grows hair on bald men.

198 Adherence to the language of the claims promotes predictability, and ensures that competition is not "chilled". A patent of uncertain scope would impede research and development and discourage economic activity. That being said, a patentee must be protected from the effects of excessive literalism. This goal is achieved by interpreting claims in light of the knowledge of the person to whom the patent was addressed at the date of publication of the patent. While the construction of a patent is for the court, it is to be done on the basis that it is addressed to the POSITA to which the patent relates, who are thereby able to put the invention described in the claims into practice. Of course, the level of sophistication attributed to a POSITA will depend largely on the field to which the patent relates and the Court must construe the patent in light of the knowledge and understanding of such persons (*Whirlpool Corp.*, above, at para 53; *Free World Trust*, above, at para 44).

199 The following quote from the decision of the Supreme Court in *Free World Trust* at paragraph 51 sums up the issue quite nicely:

[51] (...) The involvement in claims construction of the skilled addressee holds out to the patentee the comfort that the claims will be read in light of the knowledge provided to the court by expert evidence on the technical meaning of the terms and concepts used in the claims. The words chosen by the inventor will be read in the sense the inventor is presumed to have intended, and in a way that is sympathetic to accomplishment of the inventor's purpose expressed or implicit in the text of the claims. However, if the inventor has misspoken or otherwise created an unnecessary or troublesome limitation in the claims, it is a self-inflicted wound. The public is entitled to rely on the words used *provided* the words used are interpreted fairly and knowledgeably.

200 Finally, it is only those elements of the claims that can be considered as essential whose breach will be sufficient to justify a finding of infringement. This is consistent with the notion that patents should not be interpreted so as to unduly limit competition and that claims should not be stretched to allow the patentee to monopolize anything that achieves a desirable result:

For an element to be considered non-essential and thus substitutable, it must be shown either (i) that on a purposive construction of the words of the claim it was clearly not [emphasis added] intended to be essential, or (ii) that at the date of publication of the patent, the skilled addressees would have appreciated that a particular element could be substituted without affecting the working of the invention, i.e. had the skilled worker at that time been told of both the element specified

2013 FC 1043, 2013 CF 1043, 2013 CarswellNat 3663, 2013 CarswellNat 5722...

in the claim and the variant and "asked whether the variant would obviously work in the same way", the answer would be yes: *Improver Corp. v. Remington*, supra, at p. 192. In this context, I think "work in the same way" should be taken for our purposes as meaning that the variant (or component) would perform substantially the same function in substantially the same way to obtain substantially the same result.

See: *Free World Trust*, above, at para 55.

201 The Plaintiff bears the burden of establishing known and obvious substitutability at the date of publication. In other words, everything that is claimed is presumed essential unless the patentee establishes otherwise or the claim language otherwise dictates:

While it would be unfair to permit a patent monopoly to be breached with impunity by a copycat device that simply switched bells and whistles to escape the literal claims of the patent, the onus is on the patentee to establish known and obvious substitutability at the date of publication. If the patentee fails to discharge that onus, the descriptive word or expression in the claim is to be considered essential unless the context of the claim language otherwise dictates. The claims cannot be stretched to allow a patentee to monopolize anything that achieves the desirable result.

Canamould Extrusions Ltd. v. Driangle Inc., 2003 FCT 244, 229 F.T.R. 104 (Fed. T.D.), at para 35, aff'd 2004 FCA 63 (F.C.A.). See also *Free World Trust*, above, at paras 55, 57; *Quadco Equipment Inc. v. Timberjack Inc.* (2002), 17 C.P.R. (4th) 224 (Fed. T.D.), at para 28.

202 It is clear from a careful reading of the '045 Patent that the positioning means provided on the container-defining sheet and on the container-sealing sheet are essential elements of the invention. I come to this conclusion for the following reasons. First of all, the description of the prior art found in the Patent indicates that pill dispensers were efficient but had some drawbacks, one of which was the difficulty and the time involved in ensuring the correct positioning of the preprinted sealing sheet on top of the containers. The claimed invention purports to deal with this problem with a means of aligning the two components of the kit (the container-defining sheet and the container-sealing sheet) so that each pill container can be easily separated.

203 As previously mentioned, it is also quite telling that the positioning means is part and parcel of each of the independent claims, and is referred to several times in the specification, including on: page 3, line 13; page 8, lines 25-1 and page 9, lines 1-4; page 10, lines 8, 13 and 18; page 11, line 22; and page 15, line 22.

204 Both experts called upon by the parties to testify with respect to the Patent also came to that conclusion. Mr. de Winter states, in paragraph 10 of his first affidavit:

In my view, a container-defining sheet, a recessed support and a container-sealing sheet and a positioning means are essential elements. A positioning means which provides the functionality to have the container-sealing sheet be in precise superposition (with very small tolerances) on top of the container-defining sheet is an essential element of the invention. If it is not in precise superposition the container-sealing sheet would be torn, limiting its desired use.

(de Winter, September 30, 2010, at para 10)

205 As for Mr. Mauffette, he opined that nothing in the '045 Patent suggests that the inventor did not consider the positioning means provided on the container-defining sheet and on the container-sealing sheet to be essential elements. Moreover, nothing in the '045 Patent suggests that, in Claims 1, 11 and 22, the inventor did not consider the upwardly projecting protuberance(s) and the holes to be essential elements. Bearing in mind that everything that is claimed is presumed essential and that the onus is on the patentee to establish known and obvious substitutability at the date of publication, the consensus of the parties' experts as to the essential nature of the positioning means is a significant factor to consider.

206 Finally, it is interesting to note that there was a stage in the application process for the '045 Patent at which the last portion of the independent claims where it defines the holes and protuberances was not included (the "wherein clause"), as can be seen

from a letter dated May 8, 1998 from Dispill's counsel to the Commissioner of Patents in response to a previous rejection (JBD 144). At the time, paragraph (d) of Claim 1 (and corresponding paragraphs of the other independent claims) read as follows:

Positioning means provided on at least the top surface of the container-defining sheet and on the container-sealing sheet to ensure that, in use, after the container-defining sheet is fitted onto the recessed support, the paper covering is peeled off from the bands of the container-sealing sheet and said container-sealing sheet is positioned on top of the top surface of the container-defining sheet, the bands covered with a self-adhesive material and their tearing lines be in exact superposition on top of the flanges and the dotted lines of the container-defining sheet.

207 The claims were originally allowed by the Patent Office without the paragraph referring to upwardly projecting protuberances and holes. However, the original Notice of Allowance was withdrawn, and claims then of record rejected, when the Braverman Patent, of which more will be said below, was brought to the attention of the Patent Office. The paragraphs defining the upwardly projecting protuberance(s) and the holes were added to the claims by the applicant, Mr. Bouthiette (Richards' predecessor) in order to overcome this rejection.

208 Counsel for the Defendants to the Counterclaim submitted that it is difficult to imagine a clearer indication of the essentiality of a claim element than its addition to a claim in order to overcome an objection from the Patent Office. Indeed, counsel for Mr. Bouthiette at the time explicitly stated as much in his covering letter to the Commissioner:

U.S. patent No. 3,380,856 [*sic*] to BRAVERMAN discloses and illustrates in Figs. 14 to 17, a kit for the manufacture of a set of individual pill containers comprising:

- a) a container-defining sheet made of plastic material (corresponding to item 3 in the drawings of the present application);
- b) a recessed support having a top surface provided with a number of recesses at least equal to the number of cavities embossed in the container defining sheet (see item 1 in the drawings of the present application); and
- c) a container sealing sheet (item 9 in the drawings of the present application).

It is admitted that the basic structure and operation of each of these elements as disclosed in BRAVERMAN is substantially identical to what is disclosed in the present application.

However, contrary to what has been argued, BRAVERMAN does not disclose or suggest the following structural feature, which is the key feature of the present invention, namely:

- d) positioning means provided on at least the top surface of the container defining sheet and on the container sealing sheet.

Such positioning means were defined in former claims 3 and 4 as being preferably protuberances and holes identified by reference numerals 5, 7 and 15 in the drawings of the present application.

It is hereby submitted that the pins 201 shown in Figs. 14 to 16 of BRAVERMAN and against which the sealing sheet can be leaned, does not correspond to, and is not an equivalent of the positioning means disclosed and claimed in the present application. Indeed, the claims presently on file call for the positioning means (pins) to be provided on at least the top surface of the container-defining sheet and on the container sealing sheet to ensure proper positioning of both of these elements with respect to each other.

In BRAVERMAN, the pin [*sic*] 210 (1) are not provided on or pass through the top surface of the container-defining sheet and (2) they do not "lock" the container defining sheet with the sealing sheet as is called for in the claims of the present application.

[emphasis in original]

209 Counsel for Richards vigorously objected to the use of the file history (or "file wrapper"), arguing on the basis of the Supreme Court decision in *Free World Trust* that such use of extrinsic evidence has been rejected. In that case, Justice Binnie stated (at par 66):

In my view, those references to the inventor's intention refer to an objective manifestation of that intent in the patent claims, as interpreted by the person skilled in the art, and do not contemplate extrinsic evidence such as statements or admissions made in the course of patent prosecution. To allow such extrinsic evidence for the purpose of defining the monopoly would undermine the public notice function of the claims, and increase uncertainty as well as fuelling the already overheated engines of patent litigation. The current emphasis on purposive construction, which keeps the focus on the language of the claims, seems also to be inconsistent with opening the Pandora's box of file wrapper estoppel. If significant representations are made to the Patent Office touching the scope of the claims, the Patent Office should insist where necessary on an amendment to the claims to reflect the representation.

210 I am not convinced that the letter referred to by the Defendants to the Counterclaim falls squarely within the compass of that exclusion. While statements or admissions made in the course of patent prosecution shall not be used for the purpose of interpreting a claim, this is not what the Court is called upon to do in the case at bar. A change in the wording of a claim as a result of an objection from the Patent Office is an objective fact from which an inference may be drawn, and is not the same as representations made to the Patent Office. A purposive construction should obviously focus on the wording of a claim, obviously, but this is a far cry from saying that nothing else should be considered.

211 Be that as it may, counsel for Richards do not dispute that the protuberances and the holes are an important element of the '045 Patent, but they counter (relying on Mr. de Winter's expert evidence) that the term "hole" as used in the Patent should not be read literally as a complete circular hole but rather should be understood from a functional point of view of aligning the container-sealing sheet in its proper position. As he wrote at paragraph 14 of his first affidavit:

In order to be functional, the chosen protuberance must also be given a certain shape and size to engage the hole. If it is too small, it may not retain the container-sealing sheet as the tolerances of the container-sealing sheet positioned on the container-defining sheet would be too large. Since the paper is flexible, there must be enough contact to maintain the sheet in place. Thus, in my opinion, the words "hole" and "protuberance" should be understood in relation to their stated functions, i.e. protuberances extending above the recessed support and the container-defining sheet which engage an edge or edges of the container-defining sheet and the container-sealing sheet preventing two-dimensional movement of the container-sealing sheet such that the bands of the container-sealing sheet are in exact superposition on top of the flanges of the container-defining sheet.

(de Winter, September 30, 2010, at para 14)

212 With all due respect, this definition of a "hole" strains the imagination and stretches the ordinary interpretation of that word beyond what is acceptable. As stated by Mr. Mauffette in his expert report, [and as a POSITA might reasonably conclude, in the context of this patent,] for a hole to exist there must be an empty space with material around it. It appears that Mr. de Winter improperly focused on the positioning means defined elsewhere in the claims, without giving proper attention to the use of the word "hole" therein. One cannot do away with the concept of a hole in interpreting the independent claims. Had these claims not referred to holes and protuberances, then they could have been interpreted as if holes and protuberances were not the only way that positioning could be achieved. Indeed, it is quite telling that the only alternative to the positioning means described in the '045 Patent (above, at para 30 of these reasons) still refers to holes and protuberances, the only difference being that they are arranged differently to achieve the necessary alignment.

213 Mr. de Winter indicated that he was driven to construe the word "hole" broadly because the '045 Patent does not explicitly exclude the use of a single round hole. He reasoned that the inventor must have contemplated non-round holes. Up to this point, this is a fair assumption. However, based on this contemplation of non-round holes, Mr. de Winter then took the unwarranted leap of concluding that the invention must have been intended to encompass devices that are not typical holes but

that perform the same positioning function. In Mr. de Winter's view, this reasoning supports his opinion that a raised wall should be considered equivalent to a partial hole since it would perform the same function as two separate protuberances and holes.

214 Once again, I agree with counsel for Distrimed that such a construction of a "hole" is unwarranted, and Mr. de Winter himself acknowledged that he was stretching the definition of hole. He went as far as saying that he chose to focus more on the function of a hole than on the concept of a hole itself (Transcript, April 2, at pp 172-173). This is clearly inconsistent with the principles governing the construction of claims: while claims are to be construed in a purposive manner, their language must still be adhered to. A hole, at least in the context of this patent, does not have an unconventional or exceptional meaning, and there is nothing in the Patent indicating that a particular skill set is required to understand what is meant by the description of the positioning means.

215 For all the above reasons, the interpretation of the '045 Patent, and in particular of the positioning means, put forward by counsel for Richards must be rejected. The words of the '045 Patent are plain and unambiguous and do not, on their face, raise great subtleties of interpretation. Accordingly, the words "hole" and "protuberance" must bear their ordinary meaning. A hole cannot encompass anything that performs the aligning function of a hole, and there is no basis in the language of the '045 Patent for the proposition that a hole could be the edge of a sheet abutting a protuberance. The Supreme Court has cautioned that the ingenuity of a patent lies not in the identification of a desirable result but in teaching one particular means to achieve it (*Free World Trust*, above, at para 32).

ii. Infringement

216 Infringement is to be determined by comparing the allegedly-infringing product to the claims, and not to the patentee's own product (*Free World Trust*, above, at paras 69-70). There is infringement if all of the essential elements of a claim are incorporated in a product, but there is no infringement if an essential element is different or omitted (*Free World Trust*, above, at paras 31 and 68; *McKay v. Weatherford Canada Ltd.*, 2007 FC 1233 (F.C.) at para 32, aff'd 2008 FCA 369 (F.C.A.)). On the other hand, substitution or omission of non-essential elements is not necessarily fatal to an allegation of infringement: *Stonehouse v. Batco Manufacturing Ltd.*, 2004 FC 1767 (F.C.), at paras 137-138.

217 A patent will not be infringed merely because the product in issue accomplishes the same function as the patented invention (*Emmanuel Simard & Fils (1983) Inc. v. Raydan Manufacturing Ltd.*, 2005 FC 973 (F.C.), at paras 80-81, rev'd on costs 2006 FCA 293 (F.C.A.)). What matters is whether the product in issue incorporates all of the essential elements of the claim, not whether the product and the patent function similarly (*Canamould Extrusions Ltd. v. Driangle Inc.*, 2004 FCA 63 (F.C.A.), aff'g 2003 FCT 244 (Fed. T.D.) at para 52).

218 Even if the alleged infringer has not itself performed all of the steps of the claimed invention or incorporated all of the essential elements of the claimed invention into its product, it may still be found liable for inducing infringement by someone else. This Court recently set out the elements for a finding of inducing infringement: 1) there must be an act of infringement by the direct infringer; 2) this act must be influenced by the seller to the point where, without this influence, infringement by the buyer would not otherwise take place; and 3) the influence must be knowingly exercised by the seller, i.e., the seller knows that this influence will result in the completion of the act of infringement (*MacLennan c. Gilbert Tech Inc.*, 2008 FCA 35 (F.C.A.), at para 13, aff'g 2006 FC 1038 (F.C.)).

219 This Court has cautioned, however, that it is not sufficient to generally allege the products in suit are sold with instructions as to their use and that a defendant's customers or ultimate users infringe the patent in suit when they use the defendant's products in suit as instructed. Evidence of such instructions must be conclusive. Completion of the infringing act must occur as a result of the influence of the direct infringer and there must be evidence of such influence (*Hershkovitz v. Tyco Safety Products Canada Ltd.*, 2009 FC 256 (F.C.) at para 160 [*Hershkovitz*]).

220 In their submissions, counsel for Richards argued that the Distrimed pill dispenser borrows a number of essential elements from the '045 Patent. They mentioned, among other things, the horizontal strip that can be removed from the bottom surface of the container-sealing sheet exposing a self-adhesive strip to attach to the top surface of the container-defining sheet.

They also mentioned the dotted line (die-cut) punched in the container-sealing sheet as another important feature or even essential element of that product. I do not, however, need to make any findings with respect to those alleged similarities in light of the fact that counsel for Distrimedic have chosen to focus their non-infringement argument on other essential elements of the claims. As previously mentioned, it is sufficient for the Defendants to the Counterclaim to establish that at least one essential element of each of the claims of the '045 Patent is not present in the Distrimedic system to avoid a finding of infringement (*Free World Trust*, above, at para 31).

221 A key feature of each of Claims 1 to 25 is the "positioning means provided on at least the top surface of the container-defining sheet and on the container-sealing sheet". Counsel for Distrimedic argues that the Distrimedic system does away with this feature at least because the container-defining sheet does not have positioning means on its top surface. I agree with Mr. Mauffette that the container-defining sheet of the Distrimedic system is kept in position by the snug fit of its cavities in the recesses of the tray. Neither the edge, nor any other part of the container-sealing sheet of the Distrimedic system engages any protuberance or raised portion of the tray.

222 There was a lot of discussion about the proximity of the top of the container-defining sheet and the protruding zone of the support tray. They are indeed close, but there does not appear to be any functional reason why they need to be. It would arguably make it more difficult to fit the container-defining sheet on the tray if the top of the sheet or the two side tabs were to touch the vertical protruding zone of the tray. Even if I were prepared to accept, however, that the two side tabs on the container-defining sheet somehow help to align that sheet against the raised vertical edges of the mounting tray, another key element would still be missing. Claims 1 to 14 and 22 to 25 (claims 15 to 21 were subject to a disclaimer and are addressed below), specify that:

the positioning means comprises at least one upwardly projecting protuberance provided on the top surface of the recessed support, at least one hole provided into the container-defining sheet and at least one other hole provided in the container-sealing sheet, said at least one hole and one other hole being sized and positioned to correspond to and be engaged by said protuberance.

223 Neither the container-defining sheet nor the container-sealing sheet of the Distrimedic system has any holes. Moreover, the recessed support of the Distrimedic system does not include any upwardly projecting protuberance to correspond to and be engaged by any holes. The container-sealing sheet and the container-defining sheet are aligned and fixed together in a manner that is materially different from that described and claimed in the '045 Patent.

224 Counsel for Richards argued that from a dynamic point of view, the two side tabs perform the same function as the holes and protuberances of the Dispill device. They also suggested that locating the label sheet by abutting it against the raised protuberances or edges at the top of the Distrimedic mounting tray is equivalent to and corresponds with engaging the hole as in the claims. In their submission, therefore, the raised edges perform the same function as the holes in the container-defining and container-sealing sheets and the protuberance in the recessed support in the patent.

225 I have already indicated, in the previous section dealing with the construction of the '045 Patent, that such a convoluted reading of the Patent ought to be rejected for a number of reasons. Not only would such an interpretation of the words "hole" and "protuberance" not be in keeping with the common knowledge of the worker skilled in the art to which the patent relates, but it would also render at least some of the claims invalid for anticipation in light of the Braverman Patent.

226 The remaining claims of the '045 Patent, Claims 26 to 28, define either a pill-sorting device or a device for opening a set of pill containers with a knife. Richards does not allege direct infringement of these claims, since there is no evidence or argument that the Distrimedic system incorporates any device similar to those claimed in the '045 Patent. Rather, Richards claim that Distrimedic induced infringement of these claims by pharmacists. This argument, which Richards' counsel did not vigorously advance cannot succeed. Quite apart from the fact that these two devices don't appear to work properly with the Distrimedic system, purchasers of such devices from Richards must be presumed to have acquired an implicit right to use them without restriction (*Eli Lilly & Co. v. Novopharm Ltd.*, [1998] 2 S.C.R. 129 (S.C.C.), at para 100; *Signalisation de Montréal Inc. v. Services de Béton Universels Ltée* (1992), [1993] 1 F.C. 341 (Fed. C.A.), at para 20). In cross-examination, Mr. Glynn

confirmed that Richards does not communicate to purchasers any restrictions on the use of its products that would override the implicit right to use without restriction.

227 It follows then that Richards' purchasers are not infringing the '045 Patent when they use such devices, regardless of how they use them. There can be no inducement to infringe on this basis not least because the first element of the three-part test (an act of infringement by the direct infringer) is not satisfied. Moreover, Richards has adduced no admissible evidence regarding the second element of the test for inducing infringement, i.e., that any infringing act by a user of the devices in question was influenced by Distrimedic such that, without this influence, the infringing act would not have taken place. Accordingly, there is no infringement of any claim that includes the pill-sorting device or the device for opening a set of pill containers with a knife on the basis alleged.

228 Finally, though many of the trays sold as part of the Distrimedic system incorporate "a number of recesses at least equal to the number of cavities embossed in the container-defining sheet" (defined in Claims 1 to 25), two of them (Exh. 543 and 544) do not incorporate this feature. The first two rows of recesses are evenly spaced and intended to receive cavities of container-defining sheets, similar to other Distrimedic trays, but the remaining recesses are different. Moreover, these trays also do not infringe Claims 5 and 19 for the additional reason that they do not comprise 28 recesses.

229 Having found that Distrimedic has not infringed the '045 Patent, it is not strictly necessary for me to address the next two questions identified by the Prothonotary with respect to patent law. Since these issues have been thoroughly canvassed by the parties, however, and because the validity of the disclaimer has been explicitly left open as a result of the decisions taken by this Court and by the Court of Appeal, ordering the Commissioner to accept the disclaimer, I shall deal with them briefly now.

iii. The Disclaimer

230 As previously mentioned, Richards filed a disclaimer in respect of Claims 15 to 21 of the '045 Patent. Claim 15 is an independent claim while Claims 17, 18 and 19 are dependent claims. The entirety of Claim 16 was disclaimed. The changes in Claim 15 resulting from the disclaimer are found in paragraph 43 of these reasons.

231 A disclaimer is a significant, formal and public act filed at the Patent Office. It is a mechanism that, when filed in the prescribed form and manner, is used by patentees to disclaim part of their patent when, by mistake, accident or inadvertence, and without wilful intent to defraud or mislead the public, the patentee has done one of two things: a) framed his patent too broadly, or b) incorrectly claimed to be the inventor of any material or substantial part of the patent to which he had no lawful right (or incorrectly claimed some other person as the inventor thereof) (*Patent Act*, s. 48(1)).

232 A disclaimer must be filed in the prescribed form and manner: *Patent Act*, s. 48(2). More specifically, it must follow the form and instructions for its completion as set out in Form 2 of Schedule 1 of the *Patent Rules*, to the extent the provisions of the form and the instructions are applicable (*Patent Rules*, SOR/96-423, s. 44). In completing Form 2, the patentee must follow the precise form of items 3(1) or 3(2), which specify the subject matter disclaimed. Either the patentee disclaims the entirety of a claim or the entirety of a claim with the exception of listed elements of that claim. The expression "...with the exception of the following..." used in item 3(2) of Form 2 makes it clear that a disclaimer is essentially a negative allegation, and it is clearly not to be used as a device for reformulating or redefining the invention disclosed and claimed.

233 Patents are presumed to be valid pursuant to s. 43(2) of the *Patent Act*, but this presumption does not extend to disclaimers (*Sanofi-Aventis Canada Inc. v. Hospira Healthcare Corp.*, 2009 FC 1077 (F.C.), at para 142 [*Sanofi-Aventis*]). The fact that the Commissioner of Patents must accept disclaimers when filed does not speak to their validity and is not determinative of whether or not the disclaiming party has fulfilled the requirements of section 48(1) of the *Patent Act*. This is precisely what this Court and the Court of Appeal reiterated when they set aside, on judicial review, the Commissioner's decision refusing to record the disclaimer because it attempted to broaden, rather than narrow, the scope of at least one claim (see paras 44 to 50 of these reasons). When a disclaimer is contested, its validity must be proven, and it is for the Court to determine whether the patentee made the disclaimer in good faith and not for an improper purpose. The law pertaining to these issues has been aptly summarized by my colleague Justice Martineau in *Hershkovitz* above, at para 79:

Finally, when the validity of a disclaimer is contested, the onus of showing that there was "mistake, accident or inadvertence" is on the patentee, and the propriety or validity of such disclaimer may be reviewed by the Court if the patent is litigated. Moreover, according to the case law, the validity of the disclaimer depends on the "state of mind" of the patentee at the time he made his specification. The patentee must be able to demonstrate to the Court that the disclaimer is made in good faith and not for an improper purpose. Where the patentee does not discharge this burden, the disclaimer will be held to be invalid. The fact that the patent Office had accepted a disclaimer is not determinative...

See also: *Pfizer Canada Inc v Apotex Inc*, [2007] FC 971, at para 38; *Sanofi-Aventis*, above, at paras 140-142; *ICN Pharmaceuticals, Inc v Canada (Staff of the Patented Medicine Prices Review Board)*, [1997] 1 FC 32, at para 70.

234 Having considered all the evidence on the record, I am inclined to believe that the patentee has failed to meet its onus to show that a mistake, an accident or an inadvertence led to the specification being too broad. First of all, it was only after the commencement of the present proceedings that Richards saw the need to file a disclaimer; no concerns appear to have been raised when the patent was reviewed at the time that Richards acquired it. While this chronology is obviously not sufficient, in and of itself, to establish bad faith, it is certainly a contextual element that can be considered in determining what prompted the filing of a disclaimer.

235 Richards' attempt at an explanation for the portion of the disclaimer concerning replacement of the word "hole" with "engaging means" was both unconvincing and inadequate. According to Mr. Glynn, Richards' concern was that there wasn't "a proper description around the holes being engaging means grabbing the protuberance" (Transcript, March 25, at p 123). However, the disclaimed claim, in its original form, already defined the holes as "being sized and positioned to correspond to and be engaged by said protuberance". It may be, as Mr. Glynn added, that the new description is a better description of the positioning means, but this is insufficient to constitute a mistake, accident or inadvertence for the purposes of establishing the validity of a disclaimer.

236 Moreover, neither the inventor, Bouthiette, nor anyone else involved in the original patent application was ever consulted about the disclaimer. Again, while this is not determinative in determining whether a disclaimer has been filed for an improper purpose, it is nevertheless a relevant indicia to consider, especially when the inventor is available and easily reachable as was attested to here.

237 Finally, one cannot help but wonder why Claim 1, which has virtually identical language to that disclaimed in Claim 15, was not similarly disclaimed. When questioned on that point, Mr. Glynn could give no explanation. If there had been a genuine mistake, accident or inadvertence which prompted the filing of the disclaimer, other claims using identical language should logically have been amended as well.

238 The substance of the disclaimer is equally problematic, as it clearly broadens the scope of the patent instead of narrowing it. As indicated above, a key change made through the disclaimer was changing the language of "at least one hole" to "engaging means" and "at least one other hole" to "other engaging means". A hole is undoubtedly an engaging means, but engaging means is not limited to a hole. It could include, for example, a depression or a recess.

239 Bearing in mind that the validity of the disclaimer is the subject of an application for judicial review, I shall refrain from ruling definitively on the issue. My comments on this subject are only meant to be an additional reason for concluding that the Defendants to the Counterclaim have not infringed the '045 Patent. That being said, I cannot agree with counsel for Distrimed that the original patent should be invalidated, on the basis that it is tainted by the admission made by Richards that the disclaimed claims in their original form were too broad. I cannot accept this argument in the case at bar. The reasoning advanced by the Defendants to the Counterclaim would hold true if the disclaimed claims in their original form were indeed too broad. However, quite to the contrary, it is the disclaimer that would impermissibly broaden the scope of the claim. I appreciate that Richards, by filing the disclaimer, conceded that their original patent was too broad in scope. There is, however, no independent evidence to that effect, and the Defendants to the Counterclaim have not submitted any arguments in support of their claim that the original patent is overbroad. Contrary to the hypothetical example given by Justice Martineau in *Hershkovitz* above, at para 49, where

he assumes that a line can clearly be drawn between the scope of the original claim and the more limited scope of the disclaimed claim, there is no such clear line in the present case. In fact, one would be hard pressed to delineate an area open for innovation where new competitors could have jumped in as a result of the disclaimer, given that the disclaimer so clearly expands rather than limits the original claim. Such being the case, the Defendants to the Counterclaim have failed to demonstrate anything within the scheme of the *Patent Act* that would prevent the patentee from returning to the pre-disclaimer patent.

iv. Alternative Argument: Anticipation and/or Obviousness of the Disclaimed Claims

240 The subject-matter defined by each of the claims of a patent must be new in order to be patentable; in other words, the subject matter of a patent must not have been previously disclosed. A claim that is not new cannot be valid. Anticipation, or lack of novelty, asserts that the invention is not new because it has been made known to the public prior to the relevant time. The relevant time, according to the current *Patent Act*, is normally the "claim date", which is defined as the filing date of the application for the patent in Canada or the filing date of a properly claimed foreign priority application. In cases where the prior art came from the applicant, the applicant cannot have disclosed the subject matter defined by the claim more than one year prior to the Canadian filing date.

241 The traditional approach to anticipation, which was set forth in *Beloit Canada Ltée/Ltd. v. Valmet Oy* (1986), 8 C.P.R. (3d) 289 (Fed. C.A.), at 297 (FCA) [*Beloit*], reads as follows:

It will be recalled that anticipation, or lack of novelty, asserts that the invention has been made known to the public prior to the relevant time. The enquiry is directed to the very invention in suit and not, as in the case of obviousness, to the state of the art and to common general knowledge. Also, [...] anticipation must be found in a specific patent or other published document; it is not enough to pick bits and pieces from a variety of prior publications and to meld them together so as to come up with the claimed invention. One must, in effect, be able to look at a prior, single publication and find in it all the information which, for practical purposes, is needed to produce the claimed invention without the exercise of any inventive skill. The prior publication must contain so clear a direction that a skilled person reading and following it would in every case and without possibility of error be led to the claimed invention.

See also: *Abbott Laboratories v Canada (Minister of Health)*, 2006 FCA 187, at para 20, leave to appeal to SCC refused, [2006] SCCA No 292; *Pfizer Canada Inc c Canada (Minister of Health)*, 2006 FCA 214, at para 35.

242 The Supreme Court later refined the test for anticipation in *Sanofi-Synthelabo Canada Inc. v. Apotex Inc.*, 2008 SCC 61, [2008] 3 S.C.R. 265 (S.C.C.) [*Apotex Inc.*], by requiring that a single prior publication must both disclose and enable the subject matter at issue. The traditional test set out above in *Beloit* concerned the disclosure portion of the test, but did not deal with enablement.

243 For the purposes of disclosure, the prior publication must "disclose subject matter which, if performed, would necessarily result in infringement of that patent... At this stage, there is no room for trial and error or experimentation by the skilled person" (*Apotex Inc.*, above, at para 25). The first requirement for a claim to be anticipated is therefore that the prior publication must disclose subject matter that, if performed, would necessarily result in the infringement of the patent. As has been stated, "what infringes if later, anticipates if earlier": *Consolboard Inc. v. MacMillan Bloedel (Saskatchewan) Ltd.*, [1981] 1 S.C.R. 504 (S.C.C.), at p 534; *Abbott Laboratories v. Canada (Minister of Health)*, 2006 FCA 187 (F.C.A.), at para 25, leave to appeal to SCC refused, (2007), [2006] S.C.C.A. No. 292 (S.C.C.); *Lightning Fastener Co. v. Colonial Fastener Co.*, [1933] S.C.R. 377 (S.C.C.), at p. 381.

244 If the disclosure requirement is satisfied, the second requirement of enablement requires that the POSITA be able to perform the invention. It is only at the enablement stage that trial and error or experimentation is permitted provided it does not constitute an undue burden. If the Court finds that an inventive step was required to get to the invention of the patent in suit, the prior publication will not have been "enabling" (*Apotex* above, at paras 26, 27 and 33).

245 The following factors should be considered in the analysis of the enablement requirement, as discussed in *Apotex* above, at para 37:

1. Enablement is to be assessed having regard to the prior patent as a whole including the specification and the claims. There is no reason to limit what the skilled person may consider in the prior patent in order to discover how to perform or make the invention of the subsequent patent. The entire prior patent constitutes prior art.
2. The skilled person may use his or her common general knowledge to supplement information contained in the prior patent. Common general knowledge means knowledge generally known by persons skilled in the relevant art at the relevant time.
3. The prior patent must provide enough information to allow the subsequently claimed invention to be performed without undue burden. When considering whether there is undue burden, the nature of the invention must be taken into account. For example, if the invention takes place in a field of technology in which trials and experiments are generally carried out, the threshold for undue burden will tend to be higher than in circumstances in which less effort is normal. If inventive steps are required, the prior art will not be considered as enabling. However, routine trials are acceptable and would not be considered undue burden. But experiments or trials and errors are not to be prolonged even in fields of technology in which trials and experiments are generally carried out. No time limits on exercises of energy can be laid down; however, prolonged or arduous trial and error would not be considered routine.
4. Obvious errors or omissions in the prior patent will not prevent enablement if reasonable skill and knowledge in the art could readily correct the error or find what was omitted.

246 As for obviousness, section 28.3 of the *Patent Act* states that "[t]he subject-matter defined by a claim in an application for a patent in Canada must be subject-matter that would not have been obvious on the claim date to a person skilled in the art or science to which it pertains [...]." The relevant date for determination of obviousness is similar to that for anticipation: normally, the "claim date" (the Canadian filing date or the priority date, if any) or, in cases where prior art came from the applicant, one year before the Canadian filing date.

247 Obviousness, or non-inventiveness, asserts that, even if the invention was new, the POSITA, knowing of the state of the art and of the relevant common general knowledge at the relevant date, would have come "directly and without difficulty" to the invention. The traditional approach to obviousness reads as follows:

The test for obviousness is not to ask what competent inventors did or would have done to solve the problem. Inventors are by definition inventive. The classical touchstone for obviousness is the technician skilled in the art but having no scintilla of inventiveness or imagination; a paragon of deduction and dexterity, wholly devoid of intuition; a triumph of the left hemisphere over the right. The question to be asked is whether this mythical creature (the man in the Clapham omnibus of patent law) would, in the light of the state of the art and of common general knowledge as at the claimed date of invention, have come directly and without difficulty to the solution taught by the patent. It is a very difficult test to satisfy.

(*Beloit* above, at 294)

248 The Supreme Court of Canada in *Apotex* at paragraph 67 recently clarified the law on obviousness and elucidated a four-part approach to such an inquiry:

- (1)
 - (a) Identify the notional "person skilled in the art";
 - (b) Identify the relevant common general knowledge of that person;
- (2) Identify the inventive concept of the claim in question or if that cannot readily be done, construe it;
- (3) Identify what, if any, differences exist between the matter cited as forming part of the "state of the art" and the inventive concept of the claim or the claim as construed;

(4) Viewed without any knowledge of the alleged invention as claimed, do those differences constitute steps which would have been obvious to the person skilled in the art or do they require any degree of invention?

249 In that same decision, the Supreme Court introduced an "obvious to try" test as a factor that can be considered at the fourth step of its suggested approach to obviousness. The "obvious to try" test is appropriate in those areas of endeavour where advances are often made through experimentation, such as the pharmaceutical industry. However, the "obvious to try" test must be approached cautiously, and it is only one factor to assist in the obviousness inquiry.

250 If an "obvious to try" test is warranted, the following non-exhaustive list of factors should be taken into consideration at the fourth step of the obviousness inquiry:

1. Is it more or less self-evident that what is being tried ought to work? Are there a finite number of identified predictable solutions known to persons skilled in the art?
2. What is the extent, nature and amount of effort required to achieve the invention? Are routine trials carried out or is the experimentation prolonged and arduous, such that the trials would not be considered routine?
3. Is there a motive provided in the prior art to find the solution the patent addresses?

(*Apotex*, above, at para 69)

251 Finally, the inventive concept is to be ascertained by reference to the claims, rather than the specification (*Sanofi-Aventis Canada Inc. v. Apotex Inc.*, 2009 FC 676 (F.C.), at para 267; *Laboratoires Servier v. Apotex Inc.*, 2009 FCA 222 (F.C.A.), at paras 57). Indeed, it is a well established principle of patent law that "[t]he description does not define an invention; rather, the claims read in the context of the description define the invention (or inventions) of the patent" (*Laboratoires Servier v. Apotex Inc.*, 2008 FC 825 (F.C.), at para 133, aff'd 2009 FCA 222 (F.C.A.), leave to appeal to the SCC denied (2010), [2009] S.C.C.A. No. 403 (S.C.C.)).

252 The Defendants to the Counterclaim base both their anticipation and obviousness allegations upon the disclosure made through the Braverman Patent for a "Medicinal Dispensing Device". It is important to stress that there is no claim that the '045 Patent is invalid because of the prior Braverman Patent. What is asserted is that, because of that patent, the claims in the '045 Patent cannot possibly have the breadth that Richards is claiming.

253 According to the Defendants to the Counterclaim, the Braverman Patent recognizes the importance of alignment of the container-defining sheet and the container-sealing sheet. This alignment is achieved in the Braverman Patent with the assistance of pins (210) along two edges of the base (202). As stated at column 4, lines 59 to 63: "The resilient pins are properly arranged so as to guide the placement of the closure member as can be seen in FIG. 15 wherein edges 196 of the closure member are in actual contact with the pins 210."

254 The Defendants to the Counterclaim view this interaction between the closure member and the pins as similar to the interaction between the container-sealing sheet and the raised portion of the tray in the Distrimedic system. The container-sealing sheet of the Distrimedic system abuts the raised portion of the tray and is not otherwise held in place. Therefore, as noted in the submission of the Defendants to the Counterclaim, the Distrimedic system and the system described in the Braverman Patent work in essentially the same way.

255 After having carefully read both the '045 Patent and the Braverman Patent, as well as the expert reports of Messrs. de Winter and Mauffette, I have come to the conclusion that the allegation of the Defendants to the Counterclaim cannot be sustained and that the Braverman Patent does not disclose a positioning means that functions in the same way as the '045 Patent, that is, with active engagement of both the container-sealing and container-defining sheets. While it cannot be denied that the spring-loaded pins help in guiding the container-sealing sheet, as Mr. de Winter admitted, they do not locate the sheet in the sense of keeping it in position. Moreover, even guiding the container-sealing sheet is clearly not their main function. Spring loaded pins are expensive, particularly as a stainless steel mounting tray would require stainless steel pins; if their function was

purely to locate the container-sealing sheet, they could have been replaced by plastic molding components. Furthermore, the Braverman Patent twice mentions that the function of the pins is to eject the pressure applying member, which is consistent with the normal use of such pins and is typical in molding, stamping, and tooling. Finally, it appears that the sheet is aligned by a person holding it by hand through the nipped corner diagonally opposite to the pins, reinforcing the view that the pins are not meant to hold the sheet in place.

256 In light of the above, I accept Mr. de Winter's assessment that the invention described in the '045 Patent was neither obvious nor anticipated. The Braverman Patent does not provide disclosure of how to perform or make what is disclosed and claimed as the invention in the '045 Patent. To borrow from the language of Justice Hugessen in *Beloit*, the Braverman Patent does not provide "all the information which, for practical purposes, is needed to produce the claimed invention without exercise of any inventive skill" (*Beloit*, above, at 297). The upwardly projecting protuberances and the holes as a means of positioning the container-sealing sheet over the container-defining sheet were not obvious either, in light of the common general knowledge as of July 22, 1996. The Braverman Patent may have triggered an inventor to think of a new (and equally inventive) concept, but this is insufficient to render the later idea obvious.

257 This finding is consistent with my earlier determination that the disclaimer is invalid. As previously mentioned, the paragraph defining the "at least one upwardly projecting protuberance" and the holes was added to Claim 15 by the applicant (Richards' predecessor) in order to overcome a rejection of the previous wording of the claim by the Patent Office. This essential element is clearly the innovative element of the claim. Replacing the terms "at least one hole" and "at least one other hole" by "engaging means" and "other engaging means" would clearly broaden the scope of the claim since it would no longer be limited to a system in which the container-sealing sheet is aligned with the container-defining sheet by way of the engagement of holes in each with at least one corresponding upwardly projecting protuberance in the recessed support. By invalidating the disclaimer and upholding the validity of the '045 Patent in its original form, its newness or inventiveness would therefore be preserved.

b) Misrepresentation

258 As noted above, Prothonotary Morneau framed the issue related to misrepresentation as follows: "Whether the defendants to the counterclaim have made false and misleading statements that tended to discredit the business, services and wares of Richards."

259 Subsection 52(1) of the *Competition Act* provides that no person shall knowingly or recklessly make a representation to the public that is false or misleading in a material respect for the purpose of promoting the supply or use of a product or for the purpose of promoting any business interest. Pursuant to paragraphs 52(1.1)(a) and (c), it is not necessary that any person be in fact deceived or misled by the false or misleading representation, nor that the representation be made in a place to which the public had access. While subsection 52(1) establishes a criminal prohibition, sections 74.01 and following provide a civil track for pursuing claims of misleading representation.

260 There is no allegation that the Defendants to the Counterclaim made any false or misleading statements in advertising, and no such evidence was adduced. In their Pre-Trial Conference Memorandum (at para 30), Richards alleged that, in 2005, Filiatrault, Poirier and/or representatives of the Defendants to the Counterclaim made one or more of the following statements to Richards' clients:

(a) that Filiatrault and Poirier had left Dispill due to its alleged price gouging and/or that the representatives were developing a similar solution that they would sell at a more fair price; and

(b) That the representatives were authorized by Dispill to offer an alternative solution to the Richards pill dispenser, but that the product would be sold under a different trade-mark.

261 At the end of the trial, counsel for Richards somewhat narrowed this allegation, claiming instead that a representative of Distrimed visited Mr. Thibault's pharmacy in order to present the Distrimed pill dispenser. Counsel made much of the fact that during that meeting, Mr. Thibault remembers having been shown product sheets that he found to be very similar to the Dispill catalogue, to such an extent that he was under the impression that the two companies must have had the same external

supplier. Mr. Thibault went so far as saying, on cross-examination, that he did not think the Distrimed price lists would have left him with the same impression of similarity.

262 The principles applicable to a determination under section 52 of the *Competition Act* have been well summarized by Justice Hood, of the Supreme Court of Nova Scotia, in *Maritime Travel Inc. v. Go Travel Direct.Com Inc.* (2008), 66 C.P.R. (4th) 61 (N.S. S.C.), at para 39, aff'd 2009 NSCA 42 (N.S. C.A.):

1. The general impression of the advertisement must be determined. In doing so, the nature of the particular portion of the public to whom it is directed must be considered.
2. The literal meaning of the advertisement is to be considered as well.
3. In determining if the advertisement is false or misleading in a material respect, extraneous evidence may be considered but not for the purpose of altering the general impression already arrived at.
4. Misleading advertising must be misleading in a material respect. Materiality is defined in terms of the effect it would have upon a consumer's buying decision. It must be "so pertinent, germane or essential" (quoting from *Apotex*) that it would have an effect upon that decision. Mere "puffery" is not sufficient to constitute misleading advertising.
5. Aggressive advertising is not circumscribed by the *Competition Act* unless it is an "untruthful disparagement" of the goods or services of a competitor (quoting from *Puralator*).
6. The Court should not interfere with competition in the workplace unless the advertisements are "clearly unfair" (*Puralator*).
7. Even advertisements which "push the bounds of what is fair" are not misleading in a material way (*Tele-Mobile*).
8. In the civil context, the burden of proof on the plaintiff is still proof on the balance of probabilities but it is a heavier burden because of the seriousness of the allegations. There must be "substantial proof" of activity which is "a very serious public crime." (*Janelle*).

263 The evidence adduced by Richards falls far short of proving that false and misleading statements were made. Mr. Thibault, the only witness called by Richards on this matter, clearly stated both in his examination in chief and in cross-examination that when he met with the representative of Distrimed in 2006, the representative did not try to mislead him into thinking that he was a Dispill representative or that he was selling Dispill products, and never falsely or misleadingly presented Distrimed's products.

264 The only remaining fact offered in support of Richards' claim is that Mr. Thibault was led to believe that the two companies had the same external supplier due to similarities between the product sheets shown to him by Distrimed's representative and the Dispill catalogue with which he was familiar. In my view, this is far from sufficient to establish that Distrimed ran afoul of section 52 of the *Competition Act*. I appreciate that such a representation, had it been substantiated, would have been quite material considering that the availability of similar accessories to those offered with the Dispill system was a key factor in Mr. Thibault's decision to switch from the Dispill system to the Distrimed system. Nevertheless, although Mr. Thibault may have been under that impression, no evidence has been offered to suggest that he came to that impression as a result of any misrepresentation by Distrimed's representative.

265 While one should not lose sight of the fact that some of Distrimed's accessories are indeed similar to the Dispill accessories, Distrimed does not have the exact same line of accessories as Dispill. It is equally noteworthy that Richards' expert, Mr. de Winter, testified that the use of the Dispill pill sorter with the Distrimed product would be "awkward" because the Distrimed and Dispill solutions are "two different systems".

266 Both Messrs. Filiatrault and Poirier denied misrepresenting themselves as being Dispill, or encouraging their clients to buy Distrimed and use it with Dispill accessories, and they provided credible explanations as to why they would not have

done that. They testified that they wanted to preserve their reputation of honesty and reliability among pharmacists, that they did not want to compromise their relationship with the Association québécoise des pharmaciens propriétaires (AQPP), that they had their own accessories and products that they wished to sell, and that at least some of Dispill's accessories do not fit with Distrimed products. During their examination and cross-examination, they both came across as forthcoming and truthful in their answers, and their credibility was not impugned or undermined in any respect. For that reason, I am inclined to give much weight to their evidence and to find it reliable.

267 Finally, a close reading of Mr. Thibault's cross-examination reveals that he is the one who initiated contact with Distrimed, that he was never presented with the Dispill catalogue, that the product sheets did not bear the name "Dispill", and that he only drew the conclusion that the Distrimed products were made by the same external supplier as the Dispill products because they looked much the same. He did mention that he did not think the Distrimed price lists shown to him at trial would have left him with the same impression of similarity, but he cautioned that this is based on recollection more than seven years after the fact.

268 Counsel for Richards made much of the fact that the Defendants to the Counterclaim chose not to call Mr. Paul van Gheluwe as a witness to rebut the evidence of Mr. Thibault. While his evidence (and in particular his cross-examination) could have been helpful in ascertaining what really took place when he met Mr. Thibault in 2006, I am not prepared to draw a negative inference from the strategic decision made by counsel for Distrimed not to call him, as there is no evidence of wrongdoing to be rebutted.

269 In fact, the same criticism can be levelled against the conscious decision of Richards not to present any other pharmacists to whom misrepresentations were allegedly made. Instead, Richards presented a few emails and handwritten notes of its employees to whom instances of misrepresentation by Distrimed were allegedly reported. The authors of such handwritten notes and emails did not testify at trial to establish what exactly was said to them, and by whom, and Distrimed therefore had no opportunity to cross-examine them. Even if the authors had testified at trial, they are clearly not the individuals to whom the alleged false and misleading statements were made. Indeed, these emails and written notes are simply Richards employees to whom clients (mostly pharmacists) have reported conversations with Distrimed representatives. They clearly constitute hearsay (and, in at least one instance, double hearsay) evidence, and as such are not admissible.

270 Considering the seriousness of the allegations made against the Defendants to the Counterclaim, I find that counsel for the Plaintiffs by Counterclaim have not met their burden of proof. The evidence does not rise to the stringent standard of a high preponderance of probabilities established by the case law: see *Janelle Pharmacy Ltd. v. Blue Cross of Atlantic Canada*, 2003 NSSC 179, 27 C.P.R. (4th) 19 (N.S. S.C.), at paras 95-97; *Pentagon Investments Ltd. v. Canadian Surety Co.*, [1992] N.S.J. No. 402 (N.S. C.A.). In coming to this conclusion, I bear in mind that the purchasers of the Dispill and Distrimed products are sophisticated purchasers unlikely to be easily influenced or misled; the decision to adopt one kind of pill dispenser instead of another is most often taken by medical professionals and more than one person whether in the context of pharmacies or nursing homes, and it is in that context that the general impression of the advertisement or of the representations has been assessed.

271 For all of the foregoing reasons, I find that the allegations of misrepresentation have not been made out. The evidence is far from sufficient to establish, on a high preponderance of probabilities, that Distrimed or its representatives made misleading representations with respect to their wares or disparaging comments regarding Richards' goods and services.

c) Passing Off

272 Richards claims that the Defendants to the Counterclaim have "wrongfully directed public attention to their business, services and wares in such a way as to cause or be likely to cause confusion in Canada at the time they commenced so to direct attention between their businesses, wares and services and those of the Defendant Richards", contrary to paragraph 7(b) of the *Trade-marks Act* (Three Times Amended Statement of Defence and Counterclaim, at para 48(i)). More specifically, Richards claims that: (1) by virtue of its extensive advertising and sales, the "Richards Packaging Label Colour Trade Marks" has "become well and favourably known to pharmacists, nurses and nursing home employees and the public in respect of Richards Packaging's pill dispenser and have become distinctive trade marks of Richards Packaging", and that (2) "[t]he continued use

of the colour trade marks applied to the top surface of the container-sealing sheets for use with the DISTRIMEDIC Product by the Defendants to the Counterclaim and their agents is likely to lead members of the public to the inference that either the business or wares of Distrimedic and the other Defendants to the Counterclaim are associated with Richards Packaging's container-sealing sheets and Richards Packaging's pill dispenser or that Richards Packaging endorses or otherwise approves of the business, services and wares of Distrimedic, and the other Defendants to the Counterclaim" (Three Times Amended Statement of Defence and Counterclaim, at paras 29 and 46).

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. As Fleming put it in his seminal book *The Law of Torts*, 4th ed (Sydney: Law Book Co, 1971), at p 626:

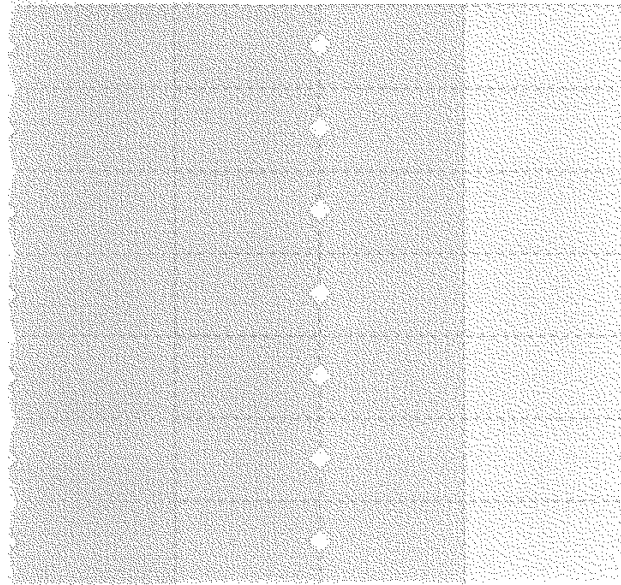
Yet another form of misrepresentation concerning the plaintiff's business — unfair competition *par excellence* — is the tort of passing-off, which differs from injurious falsehood in prejudicing the plaintiff's goodwill, not by deprecatory remarks, but quite to the contrary by taking a free ride on it in pretending that one's own goods or services are the plaintiff's or associated with or sponsored by him.

See also: *Canadian Business School Inc. v. Sunrise Academy Inc.* (2002), 23 C.P.R. (4th) 220 (Fed. T.D.), at paras 21, 23.

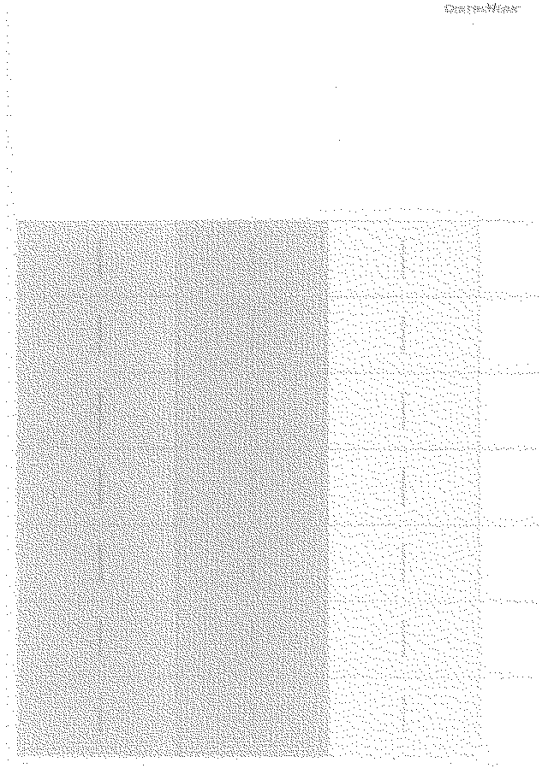
274 Despite making this argument, counsel for the Plaintiffs by Counterclaim have offered little (whether in their written submissions or orally) to substantiate it. Aside from referring in their written representations to Schedule "A", comparing Distrimedic customers of the labels ETCP-500 and ETCA-500 with Distrimedic customers of the A4 format of labels, and to Schedule "B", showing that Richards and Distrimedic have many customers in common, there is very little discussion of the necessary components to ground a finding of passing off, whether based on common law or paragraph 7(b) of the *Trade-marks Act*. Having carefully reviewed the evidence, I have come to the conclusion that Richards' claim under that section must fail as it has not demonstrated any of the elements necessary for an action in passing off to succeed, or even that it holds trademark rights in its colour scheme.

275 Before going any further, it is worth clarifying what is at stake here. Richards admitted that Distrimedic's current colour scheme, which has been in use since 2006 and is reproduced below, does not infringe upon any trade-marks rights Richards claims to possess (Agreed Statement of Facts, Trial Exhibit 500, at para 39).

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**Graphic P-118**

276 It is therefore only the original colour scheme that Distrimed used for a period in 2005 that is the subject of Richards' claim under the *Trade-marks Act*. Distrimed recognized that it printed and distributed a colour scheme that was for all intent and purpose identical to the Dispill Colour Scheme in its early days of operation, but submits that it made only a limited run of labels bearing the original colour scheme and that they were distributed solely for testing purposes. This original colour scheme used by Distrimed, which is identical to that used by Dispill, is reproduced below:



Graphic P-119

277 The first issue identified by the Prothonotary in his Order dated September 28, 2011 relates to the very existence of a trade-mark right in the Dispill Colour Scheme. This is entirely consistent with the inherent logic of a passing off action under paragraph 7(b) of the *Trade-marks Act*. As the Federal Court of Appeal stated in *Kirkbi AG v. Ritvik Holdings Inc. / Gestions Ritvik Inc.*, 2003 FCA 297 (F.C.A.), aff'd 2005 SCC 65, [2005] 3 S.C.R. 302 (S.C.C.) [*Kirkbi*], the scope of a passing off action is limited to situations where the plaintiff can demonstrate that it holds trade-marks rights in the indicia alleged to have been misappropriated:

38. (...) Paragraph 7(b) is the equivalent statutory expression of the common law tort of passing off, with one exception: 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 the action. To bring a passing-off action under the Act, one must have a valid trade-mark 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), such as the Appellants' action.

278 The Supreme Court confirmed the Federal Court of Appeal's findings with respect to the necessity of showing that a "trade-mark" exists in order to succeed in a passing off action. This decision is interesting and of much relevance in deciding the case at bar. *Kirkbi* was the owner of the patents for the LEGO construction sets. When the patents expired, Ritvik, a Canadian toy manufacturer, began manufacturing and selling bricks interchangeable with LEGO. *Kirkbi* tried to assert a trade-mark in the "LEGO indicia" (i.e., the upper surface of the block with eight studs distributed in a regular geometric pattern), but was unsuccessful with the Registrar of Trade-marks. *Kirkbi* then claimed the LEGO indicia as an unregistered mark and sought a declaration that it had been infringed by Ritvik pursuant to paragraph 7(b) of the *Trade-marks Act* and the common law doctrine of passing off. It requested a permanent injunction to prevent Ritvik from marketing infringing products and sought damages.

279 After having found that paragraph 7(b) of the *Trade-marks Act* is *intra vires* the jurisdiction of Parliament as it is directly connected, in pith and substance, to the enforcement of trade-marks and trade-names in Canada, the Supreme Court applied

the doctrine of functionality and determined that an unregistered trade-mark consisting solely of the technical or functional characteristics of the LEGO bricks cannot be the basis of a trade-mark. In coming to this conclusion, the Supreme Court reiterated that a mark that goes beyond distinguishing the wares of its owner to protect the functional structure of the wares themselves is transgressing the legitimate bounds of a trade-mark. It would indeed be a perversion of trade-mark law to grant trade-mark protection to a mark that has a primarily functional use, as it would provide something which a patent for the same product could not provide because patent protection cannot be perpetual. The Supreme Court quoted with approval the following paragraph from the reasons of Justice Sexton of the Federal Court of Appeal:

Indeed, in my view, subsection 13(2) [of the *Trade-marks Act*] reinforces the concept that the doctrine of functionality invalidates a mark which is primarily functional. It makes clear that the public is not constrained from using any utilitarian features of a distinguishing guise. It follows that if a distinguishing guise is wholly or primarily functional, then the public is not constrained from using the distinguishing guise in its entirety. Thus a distinguishing guise which is primarily functional provides no rights to exclusive use and hence no trade-mark protection. In other words the fact that the distinguishing guise is primarily functional means that it cannot be a trade-mark. The appellants have simply misconstrued subsection 13(2).

(*Kirkbi*, above, at para 59 as quoted by the SCC in its Reasons at para 60)

280 In order to succeed under paragraph 7(b), therefore, Richards needed to show that it holds trade-mark rights in the Dispill Colour Scheme. As already mentioned, I find that Richards has failed to do so, first and foremost because the Dispill Colour Scheme has a purely functional purpose, second because there is no convincing evidence that Richards' intention was to use the Dispill Colour Scheme as a trade-mark, and finally because the Dispill Colour Scheme has not acquired trade-mark recognition among the relevant public. I will now expand on each of these shortcomings.

i. The Dispill Colour Scheme Is Not A Trade-Mark

281 In order to determine whether the Dispill Colour Scheme is a trade-mark, it is essential to go back to the definition of a "trade-mark" found in the *Trade-marks Act*, at section 2:

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

a) marque employée par une personne pour distinguer, ou de façon à distinguer, les marchandises fabriquées, vendues, données à bail ou louées ou les services loués ou exécutés, par elle, des marchandises fabriquées, vendues, données à bail ou louées ou des services loués ou exécutés, par d'autres;

282 The appearance of a product which is "known" or "different" but not used for the purpose of distinguishing is not a "trade-mark". In other words, it is not sufficient simply to say that the goods of a defendant are very much like the goods of a plaintiff. It must be established that consumers have, by reason of the appearance of the goods of the plaintiff, come to regard those goods as having a single source or provenance, even if the customers do not know or believe that the plaintiff is the only source of the product *Oxford Pendaflex Canada Ltd. v. Korr Marketing Ltd.*, [1982] 1 S.C.R. 494 (S.C.C.), at 502.

283 Even if intention is not necessary for a trade-mark to be "used for the purpose of distinguishing", the owner's intention to use it as a trade-mark and the public recognition of the mark as a trade-mark are relevant considerations. This is inherent in the use of the disjunctive in the definition of a trade-mark, that it is used "for the purpose of distinguishing or so as to distinguish". As the Federal Court of Appeal stated in *Tommy Hilfiger Licensing Inc. v. International Clothiers Inc.*, 2004 FCA 252 (F.C.A.), at para 35:

...in determining whether a mark has been used as a trade-mark, the user's intention and public recognition are relevant considerations, and that one or the other may be sufficient to demonstrate that the mark has been used as a trade-mark.

See also: *Medox Ltd. v. Roussel (Canada) Ltée*, 48 C.P.R. (2d) 97 (T.M. Opp. Bd.), at paras 11-15.

284 Counsel for the Defendants to the Counterclaim argued that the Dispill Colour Scheme has a purely functional purpose, which is to allow a patient, or those administering medication to a patient, to more easily identify which medication to take at a specific moment of the day. I agree. Richards did not present convincing evidence demonstrating an intention to use the Dispill Colour Scheme as a trade-mark, or that the Dispill Colour Scheme has acquired trade-mark recognition among the relevant public. As such, Richards has failed to establish that the Dispill Colour Scheme is a trade-mark.

285 It is worth remembering that the Trade-marks Opposition Board allowed Distrimedic's opposition and refused to register the Dispill Colour Scheme as a trade-mark. In its decision, the Opposition Board found that Richards or its predecessor in title did not provide sufficient evidence to demonstrate an intention to use the Dispill Colour Scheme as a trade-mark. In the case at bar, both Mr. Filiatrault and Mr. Poirier testified that, in the late 1990s when the Dispill product was launched, they never contemplated using the Colour Scheme as a trade-mark, but rather always viewed it as a utilitarian feature of their product.

286 Moreover, it appears from the cross-examination of Mr. Glynn that no suggestion was made that the Dispill Colour Scheme was a trade-mark when Dispill was acquired by Richards, and there is no mention of any Dispill Label Form as a trade-mark in the schedule listing the intellectual property forming part of the share purchase agreement of July 2005 whereby Richards acquired Dispill from Mr. Bouthiette. While Richards submits that the Agreement contemplated a transfer of all intellectual property associated with the business and that the lack of reference to the trade-mark in the schedule is not determinative, its absence nevertheless lends support to the conclusion I have reached.

287 Finally, Richards has not pointed to any symbol or reference, be it on the product itself or elsewhere, suggesting that trade-mark rights have attached to the Dispill Colour Scheme. I recognize that there is no requirement to mark a TM symbol in connection with a trade-mark; however, in light of the fact that other Richards products bear indications of trade-mark or patent rights, this is certainly an additional indicia in support of a finding that neither Richards nor Dispill Inc. intended to use the Dispill Colour Scheme as a trade-mark.

288 There is no dispute between the parties that trade-mark protection does not extend to marks which are purely or primarily functional. This is a corollary to the requisite distinctiveness of a trade-mark: *Parke, Davis & Co. v. Empire Laboratories Ltd.*, [1964] S.C.R. 351 (S.C.C.), at 354. If it were otherwise, a trade-mark could be used to perpetuate a patent monopoly that would otherwise have expired. As a result, one cannot obtain a trade-mark right in the functional structure of the wares themselves; as the Supreme Court ruled in *Kirkbi* above, at paras 42-43, a trade-mark is meant to protect the distinctiveness of a product, and not its function. As stated by the Court at paragraph 67 of that decision, "[t]he doctrine of passing off did not develop to protect monopolies in respect of products but of guises, get-ups, names and symbols which identify the distinctiveness of a source". Conversely, a mark which displays some functional features is not excluded from trade-mark protection, so long as protection of the functional features do not create a monopoly over the function: *Crocs Canada Inc. v. Holey Soles Holdings Ltd.*, 2008 FC 188 (F.C.), at para 18. This doctrine of "functionality" applies both to registered and unregistered trade-marks.

289 In the case at bar, the evidence is to the effect that the Dispill Colour Scheme is primarily functional. Specifically, the colour code appears to have been adopted primarily or entirely to identify a specific moment of the day when the pill(s) contained in a blister must be taken. The resulting arrangement does not serve as a "get up", nor does it distinguish Richards' product. It was always clear in the minds of Dispill's executives, Messrs. Filiatrault and Poirier, that the Dispill Colour Scheme was just a colour code whose function was to indicate periods of the day, and in no way was it intended to be used as a trade-mark (Examination-in-chief of Claude Filiatrault at Trial, April 5, 2013, at pp 77-79; Examination-in-chief of Robert Poirier at Trial, April 11, 2013, at pp 171-173).

290 France Morissette also testified that the colour code reinforces the safety and efficiency of pill dispensing, especially with the non-professional staff in nursing homes.

291 Once more, I find myself in agreement with the Opposition Board when it stated that "[a]ll of this evidence reinforces the fact that the Mark operates as a colour code indicating the time of the day for taking the medication contained in the pill

dispenser rather than as a trade-mark identifying the source of the Wares" (*Distrimed Inc. v. Richards Packaging Inc.*, 2012 TMOB 199, [2012] T.M.O.B. No. 5199 (T.M. Opp. Bd.), at para 40).

292 Mr. Glynn himself, in his testimony, does not seem to contest that the colours do contain a certain functionality to the extent that they facilitate use of the product. He claims, however, that the particular colours used for the Dispill label were selected randomly, that they have no particular advantage over any other four colours, that they are well-known in the marketplace as being Richards' colours, and that these colours are not used by any other company. In other words, Richards' argument is that the Dispill Colour Scheme has acquired distinctiveness, or a secondary meaning, through use and public recognition.

293 To assess this argument, one must first delineate the relevant group of customers to which the product is marketed and offered. Obviously, some groups of customers are more sophisticated and will be less easily deceived by misrepresentation than others.

294 Even if the residents of nursing homes are the ultimate consumers of the pills and other pharmaceutical products which have been prescribed to them by their doctors, it is clear that they are not the target clientele of the pill dispensers in dispute. The evidence shows that patients generally do not purchase or even use the pill dispensers as such. Autonomous patients may be given the individual small blister at the appropriate time of the day, but they generally will not see the pill dispenser in its complete form and thus rarely come into contact with the complete Dispill Colour Scheme. Patients are therefore not the relevant customers of the Dispill and Distrimed products when it comes to determining whether the alleged trade-mark is distinctive. Indeed, Mr. Glynn stated in his testimony that marketing and instructional materials are directed at pharmacies and nursing homes, and this is entirely consistent with how the product is presented in Dispill's advertisements.

295 The relevant public, therefore, are the pharmacists, since they are the one who purchase the pill dispensers, and to a lesser extent the administrators of nursing homes. Obviously, these people are far less influenced by colours than would be the general public, and far less likely to be confused between one product and another because of the use of a similar colour coding scheme. As professionals, Richards' primary customers care about safety. To the extent that a colour scheme can improve safety and effectiveness in distribution of medication it will obviously be of value, but this is a far cry from saying that customers have come to associate the Dispill Colour Scheme with Dispill Inc. or Richards.

296 The only evidence presented by Richards to demonstrate that the Dispill Colour Scheme was recognized by the relevant public as a trade-mark, or that it has acquired a secondary meaning, was that of Ms. Morissette. The testimony of this one fact witness is clearly insufficient to establish that the Dispill Colour Scheme has acquired a secondary meaning or distinctiveness of any kind. It is quite telling that Richards did not introduce the evidence of any pharmacists in that respect, and did not see fit to present surveys or studies demonstrating that the relevant public has come to associate the Dispill Colour Scheme with Dispill Inc. or Richards.

297 Moreover, Ms. Morissette did not opine on the distinctiveness of the trade-mark *per se*, but only mentioned in her report that the Dispill Colour Scheme is "well-known". That does not make it a distinctive trade-mark within the meaning of the *Trade-marks Act*. At best, this colour scheme may have helped identify the product, but this was more as a result of the fact that Dispill was for many years the only pill dispenser to use a pattern of colours on its pill dispensers. The fact that a particular product has been in use for many years as the only product of its category doesn't necessarily transform its features into trade-marks, particularly where, as in the *Kirkbi* case, those features are primarily functional.

298 In short, I have not been convinced that the four colours on the Dispill product serve as an identifier of Richards as the source of the product. The colour scheme was adopted first and foremost for functionality reasons, and even if it may have come to be somewhat linked with the Dispill product in the mind of some people (a proposition for which there is scant evidence), it was more as a result of being the only product of its type on the market than as a result of an active or deliberate marketing effort aimed at creating an association with the Dispill product in the minds of pharmacists. To that extent, the colour scheme was not "used" by Richards to distinguish its product; it is the trade name Dispill that fulfilled that function.

299 Counsel for the Defendants to the Counterclaim also relied on cases such as *Apotex Inc. v. Canada (Registrar of Trade Marks)*, 2010 FC 291 (F.C.) [*Apotex Inc, FC 2010*], aff'd 2010 FCA 313 (F.C.A.), leave to appeal to the SCC refused, [2011] S.C.C.A. No. 11 (S.C.C.) and *Eli Lilly & Co. v. Novopharm Ltd.* (1997), 73 C.P.R. (3d) 371 (Fed. T.D.), aff'd (2000), 10 C.P.R. (4th) 10 (Fed. C.A.), to suggest that an attempt to have the shape, colour and/or form of pharmaceutical products recognized as trade-marks will in most cases be denied. This may well be true, for the obvious reason that shape, colour and form are usually not the primary characteristics or features by which the manufacturers of these products wish to distinguish them from the products of their competitors. The same is not necessarily true of other pharmaceutical paraphernalia, the main characteristic of which may not be their effectiveness to treat or cure a medical condition and whose appearance may be more relevant in helping the customer to choose the products of one manufacturer in preference to another. Be that as it may, I do not need to say more on this topic as I have already found that Richards did not use the Dispill Colour Scheme primarily, if at all, to identify its product. Paragraph 7(b) of the *Trade-marks Act* is therefore not available to Richards.

ii. The Distrimed Original Colour Scheme Was Not "Used" In A Way That Triggers The Application Of Paragraph 7(B) Of The Trade-Marks Act

300 Even if I were to accept that the Dispill Colour Scheme was a trade-mark at the time Distrimed entered the market in 2005, there is a second reason why paragraph 7(b) of the *Trade-marks Act* has not been infringed. Not only must the Plaintiff by Counterclaim show that it owned a trade-mark on the Dispill Colour Scheme, but it must demonstrate that the Defendants to the Counterclaim used that trade-mark within the meaning of the *Trade-marks Act*. After all, paragraph 7(b) is inextricably linked to the overall scheme of the *Trade-marks Act*. Contravention of paragraph 7(b) hinges on the proof of confusion in connection with a trade-mark, which in turn stems from the "use" by a defendant of a trade-mark within the meaning of section 4 of the *Trade-marks Act*: see *Positive Attitude Safety System Inc. v. Albion Sands Energy Inc.*, 2005 FCA 332 (F.C.A.), at paras 31-32.

301 The definition of "use" of a trade-mark in association with wares is found at section 4 of the *Trade-marks Act*:

4. (1) A trade-mark is deemed to be used in association with wares if, at the time of the transfer of the property in or possession of the wares, in the normal course of trade, it is marked on the wares themselves or on the packages in which they are distributed or it is in any other manner so associated with the wares 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 marchandises si, lors du transfert de la propriété ou de la possession de ces marchandises, dans la pratique normale du commerce, elle est apposée sur les marchandises mêmes ou sur les colis dans lesquels ces marchandises sont distribuées, ou si elle est, de toute autre manière, liée aux marchandises à tel point qu'avis de liaison est alors donné à la personne à qui la propriété ou possession est transférée.

302 The expression "in the normal course of trade" has been interpreted as "requiring that the transfer of the property in or of the possession of the wares be a part of a dealing in the wares for the purpose of acquiring goodwill and profits from the marked goods" (*Cast Iron Soil Pipe Institute v. Concourse International Trading Inc.* (1988), 19 C.P.R. (3d) 393 (T.M. Opp. Bd.), at 395 [*Cast Iron Soil Pipe*]). Such a dealing requires some payment or exchange, which excludes the use of a trade-mark in situations where the wares are given away for free or donated. In situations where samples have been distributed for free, without any subsequent sales of this same product on the market, courts have consistently held that the alleged trade-mark was not used "in the normal course of trade": see, for example, *Cast Iron Soil Pipe*, above, at 395; *Renaud Cointreau & Cie v Cordon Bleu International Ltd* (1993), 52 C.P.R. (3d) 284 (T.M. Opp. Bd.), at 287, aff'd [2000] F.C.J. No. 1414, 188 F.T.R. 29 (Fed. T.D.); *Gowling, Strathy & Henderson v. Royal Bank*, [1995] F.C.J. No. 1049 (Fed. T.D.), at para 13, (1995), 63 C.P.R. (3d) 322 (Fed. T.D.); *Professional Gardener Co. v. Canada (Registrar of Trade Marks)* (1985), 5 C.P.R. (3d) 568 (Fed. T.D.), at 571-572.

303 It follows that the handing out of free samples of a product without subsequent distribution of said product on the market does not amount to "use" of the affixed mark as a trade-mark, and therefore does not trigger the application of paragraph 7(b) of the *Trade-marks Act*. This is precisely what the Defendants to the Counterclaim allege was done in 2005 when they temporarily distributed the Distrimed original colour scheme. The evidence before this Court is that approximately 100,000 sheets with

the same colour scheme as the Dispill Colour Scheme were printed. Both Mr. Filiatrault and Mr. Poirier testified that only a few batches of 500 sheets were distributed for free to approximately eleven pharmacies for testing purposes and to receive feedback on their product. This was apparently done over a period of several weeks in November and December 2005. Subsequently, these sheets are said to have been destroyed and never to have been sold by the pharmacists to their clients.

304 It is true that the circumstances surrounding the printing and subsequent destruction of these initial sheets are far from clear, and that no evidence was produced to corroborate the testimonies of Messrs. Filiatrault and Poirier. Conversely, the Plaintiff has not adduced any evidence, be it in the form of pharmacists' testimonies or otherwise, sufficient to undermine the credibility of Messrs. Filiatrault and Poirier.

305 The only argument put forward by the Plaintiff by Counterclaim in that respect is that the same product codes (ETCA-500 and ETCP-500) were used by Distrimedic for labels bearing different colour schemes (the original Distrimedic colour scheme and a new design with different colours), thereby making it difficult to determine whether and when Distrimedic stopped using the Dispill Colour Scheme. This is far from sufficient to rebut the testimony of Messrs. Filiatrault and Poirier. There could be any number of reasons why the same product codes were used for the same product before and after the colour change.

306 Finally, I note that Distrimedic suffered a loss on the sales of ETCP-500 and ETCA-500 labels, according to Richards' own accounting expert. Therefore, even if one were to assume that the labels were not destroyed and that all of the ETCP-500 and ETCA-500 labels bore the original Distrimedic colour scheme, these figures would tend to confirm that the labels were not used in the normal course of trade, and would not warrant an award of damages for passing off.

iii. Distrimedic Did Not Direct Public Attention To Its Business In Such A Way As To Cause Confusion With That Of Richards

307 Richards alleged that the use of the Distrimedic original colour scheme in association with the Distrimedic products "is likely to lead members of the public to the inference that either the business or wares of [...] *the* [...] *Defendants to the Counterclaim* are associated with [Richards' container-sealing sheets dispenser, or] that Richards endorses or otherwise approves of the business, services and wares of [...] *the* [...] *Defendants to the Counterclaim*" [underlining in original] (Three Times Amended Statement of Defence and Counterclaim, at para 46). In the present case, there has been no evidence of actual confusion. As previously mentioned when summarizing the evidence, Mr. Thibault is the only witness presented by Richards who met a Distrimedic representative during the period when the alleged misrepresentation occurred, and his evidence did not establish misrepresentation or confusion. Even if he may have thought that Dispill and Distrimedic relied on the same external supplier for their accessories, he was clearly aware that Dispill and Distrimedic were two different companies. He knew exactly who he was dealing with when he met Distrimedic's representative, and the representative did not misrepresent himself or his products in any way. When asked specifically whether or not he thought that Richards' and Distrimedic's products were linked, Mr. Thibault said no.

308 As for Ms. Glaude, her testimony was far from satisfactory due to significant reliance on hearsay and double hearsay. Her descriptions were not very specific, and records of alleged misrepresentations were not kept by Richards prior to the commencement of the present lawsuit. If, in any event, there was any confusion among pharmacists when Distrimedic entered the market, it was quickly dispelled as a result of Richards sending them a notice to make sure they were aware that the new competitor on the market was not Dispill or authorized by Dispill; when asked about the effectiveness of this notice, Ms. Glaude answered that she believed it worked.

309 Richards having failed to show actual confusion, it had to demonstrate that confusion was likely to occur. Such demonstration was not made.

310 As previously mentioned, the customers of the container-sealing sheets bearing the Dispill Colour Scheme are pharmacists and, indirectly, administrators of nursing homes. According to the parties' submissions, the container-sealing sheets are rarely, if ever, sold to individual patients. Typically, pharmacists supply nursing homes directly, and nursing homes in turn distribute the medication to patients. Often the patient never sees the colour arrangements at issue, as individual doses are prepared by nurses or staff outside of the patient's view. Pharmacists and other health professionals are less likely than other customers to confuse

products that they have the professional duty to use carefully and, as a result, the burden to show confusion is significantly higher than for mass consumption goods.

311 Moreover, the pharmacist's decision to adopt a brand of pill dispensers is not a decision made in a hurry, as changing or adding brands involves many changes to the organization and affects client nursing homes. Going with a new supplier of pill dispensers involves numerous steps, such as ordering and paying for supply which involves calling a different phone number or writing to a different address, contacting the pharmacy software company and paying to have the Dispill or Distrimedic application installed on the pharmacy computer, training staff to use a new system of mounting pill dispensers, possibly reorganizing work stations to adapt to the new system and accessories, and informing clients of the change or addition to existing products. According to Mr. Thibault, a pharmacist may take anywhere from a few days to months to make a decision to switch after first being presented with a new pill-dispensing system. In addition, it has been recognized that health professionals are in no way influenced by the shape or colour of health products when choosing one product over another: *Apotex Inc.* at para 33. For all of these reasons, pharmacists are unlikely to be confused into thinking that Dispill and Distrimedic pill dispensers both come from the same source, or that one is endorsed by the supplier of the other.

312 The same is true for the nursing homes and their administrators. The choice and use of pill dispensers in those facilities is monitored and analyzed by health professionals. Absent any proof to the contrary, it is difficult to imagine that such professionals, whose responsibility is to ensure the smooth running of healthcare facilities, might be confused by a colour scheme, especially when the Dispill or Distrimedic trade names are printed clearly on the reverse side of the container-sealing sheet.

313 In light of the above, and of the fact that no actual instance of confusion was put in evidence by Richards, it is obvious that none of the Defendants to the Counterclaim directed public attention to Distrimedic's wares, services or business in such a way as to cause or be likely to cause confusion in Canada within the meaning of paragraph 7(b) of the *Trade-marks Act*. Richards' claim under that provision must therefore fail, as it has not demonstrated any of the elements necessary for an action in passing off to succeed: i.e., a trade-mark with a reputation, a misrepresentation causing or likely to cause confusion, and damages resulting from such misrepresentation and confusion. Allowing Richards to succeed in its passing off claim would not only be contrary to trade-marks legislation, but also to healthy competition in the Canadian market.

d) Copyright

314 The questions raised by Prothonotary Morneau in connection with Richards' copyright claim are whether copyright subsists in the "Dispill Label Form", whether Richards can be said to be the owner of any such copyright and, if so, whether Distrimedic has infringed any copyright owned by Richards in the Dispill Label Form.

i. The Relevant Legal Principles Applicable To Copyright Protection

315 Copyright in Canada is a creation of statute. The *Copyright Act* has the dual objective of promoting the public interest in the encouragement and dissemination of works and obtaining a just reward for the creator. In interpreting the Act, courts must strive to maintain an appropriate balance between these goals: *Galerie d'Art du Petit Champlain inc. c. Théberge*, [2002] 2 S.C.R. 336, 2002 SCC 34 (S.C.C.), at paras 30-31.

316 It is well established in Canadian law that what is protected by copyright is not the idea itself, but the expression of that idea: *CCH Canadian Ltd. v. Law Society of Upper Canada*, 2004 SCC 13, [2004] 1 S.C.R. 339 (S.C.C.), at para 8 [*CCH*]; *Moreau v. St. Vincent*, [1950] Ex. C.R. 198, 12 C.P.R. 32 (Can. Ex. Ct.) at paras 38-39. This is made clear by the opening words of paragraph 5(1) of the *Copyright Act*, which read as follows:

5. (1) Subject to this Act, copyright shall subsist in Canada, for the term hereinafter mentioned, in every original literary, dramatic, musical and artistic work (...)

5. (1) Sous réserve des autres dispositions de la présente loi, le droit d'auteur existe au Canada, pendant la durée mentionnée ci-après, sur toute oeuvre littéraire, dramatique, musicale ou artistique originale (...)

317 The *Copyright Act*, in turn, gives the following definition of such works:

2. "every original literary, dramatic, musical and artistic work" includes every original production in the literary, scientific or artistic domain, whatever may be the mode or form of its expression, such as compilations, books, pamphlets and other writings, lectures, dramatic or dramatico-musical works, musical works, translations, illustrations, sketches and plastic works relative to geography, topography, architecture or science;

2. « toute oeuvre littéraire, dramatique, musicale ou artistique originale » S'entend de toute production originale du domaine littéraire, scientifique ou artistique quels qu'en soient le mode ou la forme d'expression, tels les compilations, livres, brochures et autres écrits, les conférences, les oeuvres dramatiques ou dramatico-musicales, les oeuvres musicales, les traductions, les illustrations, les croquis et les ouvrages plastiques relatifs à la géographie, à la topographie, à l'architecture ou aux sciences.

318 Because copyright only protects the expression of ideas, a work must also be expressed in some way or be in a fixed material form, in order to attract copyright protection: *CCH*, above, at para 8; *Goldner v. Canadian Broadcasting Corp. (1972)*, 7 C.P.R. (2d) 158 (Fed. T.D.). Ideas or schemes *per se* are public property as soon as they are disclosed, however good and valuable they may be. As John S. Mckeown puts it in *Fox- Canadian Law of Copyright and Industrial Designs*, 4th ed, vol 1 (Toronto: Carswell, 2004), at 4-3:

There is no requirement for originality in the idea of a work, and a novel idea, as distinct from the form in which it is expressed, is not the subject of copyright protection. Copyright is confined to the form in which the ideas are expressed. The ideas are public property, the work is the author's.

(...)

Similarly, copyright does not extend to schemes, systems, or methods, even if they are original, but is confined to their expression; nor does it extend to a method of communicating information if it is not original. However good and valuable an idea, plan, scheme or system is, the moment it is disclosed to the public, in so far as copyright is concerned, it becomes public property.

319 Finally, it is a well-known and undisputable principle of copyright law that works need to be original to attract copyright protection. The Supreme Court defined "originality" as follows in *CCH*, above, at para 16:

For a work to be "original" within the meaning of the *Copyright Act*, it must be more than a mere copy of another work. At the same time, it need not be creative, in the sense of being novel or unique. What is required to attract copyright protection in the expression of an idea is an exercise of skill and judgment. By skill, I mean the use of one's knowledge, developed aptitude or practised ability in producing the work. By judgment, I mean the use of one's capacity for discernment or ability to form an opinion or evaluation by comparing different possible options in producing the work. This exercise of skill and judgment will necessarily involve intellectual effort. The exercise of skill and judgment required to produce the work must not be so trivial that it could be characterized as a purely mechanical exercise.(...)

320 In coming to that conclusion, the Court purported to strike a middle ground between two prior competing views on the meaning of "original" in copyright law. According to some, an author deserved to have his or her efforts in producing a work recognized so long as it was not a mere copy of another work. Others favoured a more restrictive view, requiring a work to be creative to be original. The Court decided to opt for a position that falls between these two extremes. In other words, it will not be sufficient, as suggested by the Plaintiff by Counterclaim, to demonstrate industriousness or "sweat of the brow" to make a work copyrightable: see, for example, *U & R Tax Services Ltd. v. H & R Block Canada Inc. (1995)*, 62 C.P.R. (3d) 257 (Fed. T.D.) [*U&R Tax Services Ltd.*]. Conversely, the bar should not be set so high so as to exclude every work that is not creative in the sense of being novel or unique. What is required, at the end of the day, is not creativity *per se*, but at least some sort of intellectual effort. For copyright to subsist, skill and judgment must be exercised in the expression of an idea: see *CCH*, above, at para 18.

321 Compilations and forms, therefore, must be subject to the same threshold of originality as any other work. The *CCH* decision defined "compilation" as a form of expression that arises when an individual (the "arranger") takes existing material and casts it in a different form. It is not the individual components that are the subject of the copyright but the overall arrangement of them, which the arranger has produced: see *CCH*, above, at para 33.

322 In *CCH*, the plaintiff publishers were claiming copyright in headnotes, case summaries, a topical index and compilations of reported judicial decisions. The Supreme Court concluded that the headnotes, case summaries and topical index were original works in which copyright subsisted, on the basis that there had been an exercise of skill and judgment required to create them. As for the reported decisions, they were considered as a compilation of the headnotes and of the edited judicial decisions and were afforded protection. However, the Supreme Court found that the publishers could not claim copyright in the edited judicial decisions in and of themselves without the headnotes, as the addition to the judicial decisions of factual information such as the date of the judgment, the court and the panel hearing the case, counsel for each party, lists of cases, statutes and parallel citations, were trivial and not requiring judgment or skill.

323 It follows that the alignment of factual data in a non-original way is not sufficient to attract copyright protection: *Tele-Direct (Publications) Inc. v. American Business Information Inc.* (1997), 76 C.P.R. (3d) 296 (Fed. C.A.), leave to appeal refused, (1998), [1997] S.C.C.A. No. 660 (S.C.C.). Moreover, when an idea can be expressed in only a limited number of ways, then the expression of that idea is not protected, as protecting it would grant a monopoly on the idea itself. In those situations, therefore, the threshold of originality is not met and there is no copyright protection: *Delrina Corp. v. Triolet Systems Inc.* (2002), 17 C.P.R. (4th) 289 (Ont. C.A.), at paras 48-52, leave to appeal refused, (2002), 305 N.R. 398 (note) (S.C.C.).

324 Similarly, when the content and layout of a form is largely dictated by utility and/or legislative requirements, it is not to be considered original. A good illustration of this principle is found in the case of *Bonnette c. Entreprise Dominion BlueLine inc.*, 2005 QCCA 342 (Que. C.A.) [*Bonnette*]. In that case, Bonnette was suing a competitor for infringement of his copyright in wages and payroll ledgers. The Court of Appeal reiterated the basic principle that the idea of compiling information required by legislation in one place is not susceptible to protection under the *Copyright Act*, as it is the expression of an idea which is protected, and not the idea itself. The only remaining question was whether the wages books revealed an original expression of the idea of compiling such mandatory information into one document. The Court concluded that it was not the case, as there is only one way of calculating the net revenue of an employee and the disposition of the data in table form was not a copyrightable form of expression but rather a method. On the other hand, the Court of Appeal conceded that the general appearance of the payroll ledger was not devoid of originality, as there were more options open to the author to exercise some originality in the disposition of the information on the document, and that such disposition was not dictated purely by utility, as was the case for the wages books.

325 In conclusion, I agree with the Defendants to the Counterclaim that forms and other works resulting from the compilation of elements will not be considered to have a sufficient degree of originality when the selection of the elements entering into the work are dictated by function and/or law, and where their arrangement into a tangible form of expression is not original. Only the visual aspect of the work is susceptible to copyright protection, if original.

ii. Is The Dispill Label Form Susceptible To Copyright Protection?

326 There has been some confusion as to what element of the software used in association with Richards' product is actually claimed as being protected by copyright. While there is no doubt that this is not a software infringement case, it is much less clear what Richards means when referring to the Dispill Label Form.

327 In its broadest form, Richards' claim appears to be that the "Dispill Label Form" that should be protected by copyright is the selection and use of information to be printed onto a container-sealing sheet and aligned in the cells of the columns on the container-sealing sheet (Pre-Trial Conference Memorandum of the Defendants and Plaintiff by Counterclaim, at paras 18-19; Trial Written Representations, at para 314). Such a broad characterization of the Dispill Label Form would obviously fail to attract any copyright protection. As previously shown, copyright does not protect ideas, schemes, methods or selection in the

abstract, but rather the original expression of them. As such, the selection of information or fields of information is not a "work" susceptible of copyright protection. In my view, this finding is entirely obvious and this version of Richards' claim need not be discussed any further. Allowing Richards to monopolize the business of printing basic patient and prescription information on the sealing sheet of a pill dispenser, as Mr. Glynn seemed at time to claim in cross-examination and in examination for discovery, would be anti-competitive and against the spirit of copyright law.

328 Despite the ambiguity in Richards' pleadings and representations, I am prepared to accept that what Richards really seems to be referring to by the term "Dispill Label Form" is a series of entry screens from a software program written in the DOS language, which was used in the 1990s and screenshots of which are reproduced at paragraph 145 of these reasons. In its Three Times Amended Statement of Defence and Counterclaim (at para 30), Richards defines the Dispill Label Form as "(...) a form for use in a computer program wherein patient information is inputted and then printed onto a permanent container-sealing sheet or replaceable container-sealing sheet" and qualifies it as a "literary work" (see also para 312 of Richards' Written Representations). It appears, therefore, that what is claimed to be copyrighted is the layout, appearance or aesthetics of the entry screens and the arrangement of the information selected.

329 While Distrimedic has apparently never used the Dispill DOS program as its abandonment predated the incorporation of Distrimedic Inc., it is Richards' submission that this program survived in the Windows version of the Mentor pharmacy software and its entry screens, reproduced at paragraph 147 of these reasons. Richards therefore seems to be claiming copyright on these Windows entry screens as well. Richards finds support for this proposition in Dr. Abdelrahman's affidavit and testimony, according to whom the information provided in the form of the Richards' DOS program is necessary for the Mentor Windows program to print label sheets.

330 As helpful as were the report and testimony of Dr. Abdelrahman in helping the Court to better understand the two generations of operating systems used to print the Dispill labels, his evidence is of little relevance to the questions which this Court has been asked to answer; namely, whether any aspect of the Distrimedic application found in current versions of the computer software used by pharmacists in association with the Distrimedic product infringes Richards' alleged copyright in the Dispill Label Form. To be sure, Dr. Abdelrahman is not to be faulted on the relevance of his evidence as this was not the mandate he was given by Richards.

331 There is no dispute between the parties that a form does not have to be on a paper support and that a computer screen (which in any event can be printed) falls within the definition of a "work" for the purposes of the *Copyright Act*, and can therefore be protected. Similarly, the Defendants to the Counterclaim do not dispute that the DOS Dispill Label Form is a literary work.

332 There are, however, two problems preventing the recognition of copyright in the Dispill Label Form. First, the selection of the information for the DOS Dispill Label Form bears a very low degree of originality, as it is mostly dictated by provincial legislation on the labelling of prescription drugs, both in Quebec and Ontario, where the parties' products are mainly sold. In Quebec, the legal requirements regarding information that must appear on a prescription label is governed by section 2.01 of the *Regulation respecting the labelling of medications and poisons*, RRQ 1981, c P-10, r 15. According to section 2.01 of that Regulation, a pharmacist must enter on a prescription label the name of the patient, the medication prescribed (including, where applicable, the date of dispensing and number of the prescription, generic or trade name, quantity and concentration of the medication, dosage, directions for use of the medication, special directions for preservation of the medication, authorized renewal, special precautions and expiration date of the medication), the name of the prescribing physician, and the name, address and telephone number of the pharmacy.

333 It is true, as submitted by the Plaintiff by Counterclaim, that there is nothing in the Regulation referring to some elements of the information collected by the DOS Dispill Label Form, such as the DIN, the time of day and the medication format, which appear in the Medication Management screen, as well as the patient location, the number of days and the file number, which appear in the Label Printing screen. Most of these elements, however, are specific to pill dispensers and to patients living in nursing homes, and are therefore essentially dictated by utility.

334 The decision of the Quebec Court of Appeal in *Bonnette c. Entreprise Dominion Blueline inc.*, above, is quite interesting in this respect. The Court considered the fact that the author had added spaces in the document to include some additional information, such as information regarding a person's previous employment, whether the employee was affiliated with a union, her family situation, etc. The Court recognized that some judgment had been exercised, but found that it was not sufficient to confer on the overall document the required level of originality, as the elements had been integrated in a logical way into the document, and the ways in which the information could be presented were limited:

Il paraît clair que la majorité des données inscrites dans les tableaux relatifs aux gains et déductions des employés n'ont pas été sélectionnées grâce au jugement et au talent de l'auteur, mais simplement parce qu'elles constituent des données qu'un employeur a l'obligation légale de conserver. Au surplus, le choix des données ou éléments inscrits découle de l'objectif à atteindre, celui-ci étant de conserver les données relatives au calcul du revenu net des employés, il résulte que les éléments inscrits dans les tableaux sont nécessairement l'ensemble des gains et déductions susceptibles d'entrer dans ce calcul. Cette portion de la conception des livres de paye n'a pas nécessité que l'auteur fasse appel à des connaissances ou à une compétence particulières ni qu'il utilise son discernement afin de parvenir au résultat exprimé.

(*Bonnette*, above, at para 34)

335 Similarly, it cannot be said that Mr. Bouthiette, the alleged author of the DOS Dispill Label Form, exercised much originality with regards to the selection of the information on the form. Nor can it be seriously argued that this Form is susceptible of protection because of the originality of its layout, appearance or aesthetics. No evidence has been filed tending to demonstrate that the arrangement of the user interface on the DOS Dispill Label Form differs in any significant way from the DOS interface generally in use during the relevant years.

336 In short, I am unable to find in favour of the Plaintiff by Counterclaim. Copyright protects originality of form or expression. As the Supreme Court reminded us in *CCH*:

...an original work must be the product of an author's exercise of skill and judgment. The exercise of skill and judgment required to produce the work must not be so trivial that it could be characterized as a purely mechanical exercise...

(*CCH*, above, at para 25).

337 In the case at bar, I have not been convinced that the selection of information and its arrangement in the DOS Dispill Label Form required of its author the type of skill and judgment deserving of copyright protection. It may be, as suggested by counsel for Richards, that Dispill was the first to create a method of generating the necessary patient information for printing on each cell of a pill dispenser. This cannot be the subject of copyright protection, however, as it would amount to creating a monopoly on an idea or method, which the law does not permit.

338 The Plaintiff by Counterclaim submits that the original DOS program licensed by Dispill Inc. survives in the Windows version. In fact, what the Plaintiff seems to be arguing is that the information printed using the DOS program containing the DOS Form is similar to the information printed using the Windows program containing the Windows Form. The implication is that Richards, by virtue of its alleged ownership of the copyright in the DOS Form, also owns rights in the Windows Form.

339 There is no doubt that the inputted data provided to the form of the DOS program is necessary for the Windows program to print Dispill or Distrimedic label sheets, as indicated by Dr. Abdelrahman in his report (at para 11). After all, two software programs may perform the same function and allow for the printing of the same form as a result of retrieving the same information from a database. This is a far cry from saying that one program is a copy of the other, or more specifically that the Dispill Label Form (or the DOS Form) is equivalent to the Windows version of the Mentor software.

340 It must be stressed that the first and second screen shots of the Mentor software (reproduced at para 147 of these reasons) are not specific to the operation of printing onto a Dispill container-sealing sheet. In fact, these screens are part of the Mentor

pharmacy software and exist independently from the software's capacity to allow a user to print information on a Dispill sheet. It is only the third entry screen that is specific to Dispill and over which Richards could conceivably claim copyright.

341 It is also interesting to note that of the fifteen fields available on the DOS Form, only three are specific to the Dispill section of the larger Mentor software. The remaining twelve fields appear to be available for completion in modules other than the Windows Form for printing on Dispill (i.e., in the first two screen shots), and therefore are found in the Mentor software for reasons other than or in addition to printing on Dispill labels. There appear to be only two elements of the DOS Form (the start date of the label sheet and the number of days) that are also found in the Dispill-specific section of the Windows Mentor software (i.e., in the third screen shot). This means that what Richards presents as being the Windows version of the DOS Form has only two basic elements in common with the original form.

342 If the original DOS Dispill Label Form is not original within the meaning of the *Copyright Act* because the selection of information is mostly dictated by legislation, utility and common sense, the same must be said for the Dispill section of the Windows Mentor program. The information that is specific to Dispill is minimal, and there is no greater originality in the layout or aesthetics of the third screen of the Windows Form. The screen is no more than a list of legislatively required or common sense fields for printing, expressed in a non-original manner, and no evidence has been brought to suggest that it is the product of an author's exercise of skill and judgment. I find, therefore, that neither the DOS nor the Windows version of the Dispill Label Form can be protected by copyright under the *Copyright Act*.

iii. Does Richards Own Any Copyright In The Dispill Label Form?

343 The Defendants to the Counterclaim also challenge Richards' standing to sue them for copyright infringement, arguing that even if copyright subsists in the DOS Form or the WINDOWS Form, Richards does not own the copyright in either one. Richards retorts that there was a transfer of copyright in the Dispill Label Form from Bouthiette to Dispill, and refers to the following chain of titles: (a) Agreement regarding the purchase of the assets by Dispill Inc. from Bouthiette dated January 1, 1998 (JBD 68); (b) Share purchase agreement dated July 29, 2005 (Confidential, JBD 244 and JBD 245); and (c) Winding-up Agreement transferring all assets of a corporation to its shareholder dated July 29, 2005 (JBD 135).

344 Despite the mention "DISPILL Copyright 1996 — Tous Droits Réservés" appearing on the first page of the computer software program from which the Dispill Label Form was printed (JBD 149), I agree with the Defendants to the Counterclaim that there are a number of holes in Richards' alleged ownership in the copyright of the Dispill Label Form, assuming that it could be protected by copyright.

345 Paragraph 13(1) of the *Copyright Act* states that, subject to other provisions of that Act, the author of a work is the first owner of the copyright therein. In a proceeding where the title of a plaintiff is in issue, paragraph 34.1(1) indicates that the author is presumed to be the owner of the copyright unless proven otherwise:

13. (1) Subject to this Act, the author of a work shall be the first owner of the copyright therein.

Presumptions respecting copyright and ownership

34.1 (1) In any civil proceedings taken under this Act in which the defendant puts in issue either the existence of the copyright or the title of the plaintiff to it,

(a) copyright shall be presumed, unless the contrary is proved, to subsist in the work, performer's performance, sound recording or communication signal, as the case may be; and

(b) the author, performer, maker or broadcaster, as the case may be, shall, unless the contrary is proved, be presumed to be the owner of the copyright.

13. (1) Sous réserve des autres dispositions de la présente loi, l'auteur d'une oeuvre est le premier titulaire du droit d'auteur sur cette oeuvre.

Présomption de propriété

34.1 (1) Dans toute procédure civile engagée en vertu de la présente loi où le défendeur conteste l'existence du droit d'auteur ou la qualité du demandeur:

- a) l'oeuvre, la prestation, l'enregistrement sonore ou le signal de communication, selon le cas, est, jusqu'à preuve contraire, présumé être protégé par le droit d'auteur;
- b) l'auteur, l'artiste-interprète, le producteur ou le radiodiffuseur, selon le cas, est, jusqu'à preuve contraire, réputé être titulaire de ce droit d'auteur.

346 In the case at bar, Richards is clearly and admittedly not the author of the DOS Form or of the Windows Form. Therefore, Richards was required to prove that it is now the rightful owner of the alleged copyright in these alleged works, by establishing a valid chain of title linking it to the author(s) or to the first owner of the copyrights therein. This has not been done satisfactorily.

347 First of all, the identity of the author(s) of the DOS Form has not been established. This would be a crucial first step in proving any valid chain of command. Richards identified Mr. Bouthiette as the author of the DOS Form. Messrs. Filiatrault and Poirier, on the other hand, testified that Mr. Bouthiette's nephew, Francis Pelletier, programmed the DOS software and that some input was also received from pharmacists and software companies as to the selection of fields and operation of the DOS software.

348 Mr. Bouthiette could have been called as a witness by Richards, as he is alive and reachable by Ms. Glaude's own admission. Nevertheless, Richards chose not to produce him as a witness. It is well established that, absent a reasonable explanation, an adverse inference may be drawn if a party fails to adduce evidence available to him or her which could have resolved the issue: see *Milliken & Co. v. Interface Flooring Systems (Canada) Inc.* (1998), 83 C.P.R. (3d) 470 (Fed. T.D.), at para 26, aff'd (2000), 5 C.P.R. (4th) 209 (Fed. C.A.). No explanation having been provided to explain why Mr. Bouthiette could not testify, I therefore draw an adverse inference and come to the conclusion that Mr. Bouthiette is not the author of the copyrightable part of the DOS Form, or at least that he is not its sole author.

349 Moreover, the evidence of a proper assignment of copyright to Richards is deficient in at least two respects; even assuming that Mr. Bouthiette was in fact the author of the DOS Form. By virtue of sections 13(4) and 41.23 (previously 36(1)) of the *Copyright Act*, Richards was required to produce a chain of signed written assignments from Mr. Bouthiette to Richards. It has failed to do so.

13. (4) The owner of the copyright in any work may assign the right, either wholly or partially, and either generally or subject to limitations relating to territory, medium or sector of the market or other limitations relating to the scope of the assignment, and either for the whole term of the copyright or for any other part thereof, and may grant any interest in the right by licence, but no assignment or grant is valid unless it is in writing signed by the owner of the right in respect of which the assignment or grant is made, or by the owner's duly authorized agent.

41.23 (1) Subject to this section, the owner of any copyright, or any person or persons deriving any right, title or interest by assignment or grant in writing from the owner, may individually for himself or herself, as a party to the proceedings in his or her own name, protect and enforce any right that he or she holds, and, to the extent of that right, title and interest, is entitled to the remedies provided by this Act.

Copyright owner to be made party

(2) If proceedings under subsection (1) are taken by a person other than the copyright owner, the copyright owner shall be made a party to those proceedings, except

- (a) in the case of proceedings taken under section 44.1, 44.2 or 44.4;

(b) in the case of interlocutory proceedings, unless the court is of the opinion that the interests of justice require the copyright owner to be a party; and

(c) in any other case in which the court is of the opinion that the interests of justice do not require the copyright owner to be a party.

Owner's liability for costs

(3) A copyright owner who is made a party to proceedings under subsection (2) is not liable for any costs unless the copyright owner takes part in the proceedings.

Apportionment of damages, profits

(4) If a copyright owner is made a party to proceedings under subsection (2), the court, in awarding damages or profits, shall, subject to any agreement between the person who took the proceedings and the copyright owner, apportion the damages or profits referred to in subsection 35(1) between them as the court considers appropriate.

13. (4) Le titulaire du droit d'auteur sur une oeuvre peut céder ce droit, en totalité ou en partie, d'une façon générale ou avec des restrictions relatives au territoire, au support matériel, au secteur du marché ou à la portée de la cession, pour la durée complète ou partielle de la protection; il peut également concéder, par une licence, un intérêt quelconque dans ce droit; mais la cession ou la concession n'est valable que si elle est rédigée par écrit et signée par le titulaire du droit qui en fait l'objet, ou par son agent dûment autorisé.

41.23 (1) Sous réserve des autres dispositions du présent article, le titulaire d'un droit d'auteur ou quiconque possède un droit, un titre ou un intérêt acquis par cession ou concession consentie par écrit par le titulaire peut, individuellement pour son propre compte, en son propre nom comme partie à une procédure, soutenir et faire valoir les droits qu'il détient, et il peut exercer les recours prévus par la présente loi dans toute l'étendue de son droit, de son titre et de son intérêt.

Partie à la procédure

(2) Lorsqu'une procédure est engagée au titre du paragraphe (1) par une personne autre que le titulaire du droit d'auteur, ce dernier doit être constitué partie à cette procédure sauf:

a) dans le cas d'une procédure engagée en vertu des articles 44.1, 44.2 ou 44.4;

b) dans le cas d'une procédure interlocutoire, à moins que le tribunal estime qu'il est dans l'intérêt de la justice de constituer le titulaire du droit d'auteur partie à la procédure;

c) dans tous les autres cas où le tribunal estime que l'intérêt de la justice ne l'exige pas.

Frais

(3) Le titulaire du droit d'auteur visé au paragraphe (2) n'est pas tenu de payer les frais à moins d'avoir participé à la procédure.

Répartition des dommages-intérêts

(4) Le tribunal peut, sous réserve de toute entente entre le demandeur et le titulaire du droit d'auteur visé au paragraphe (2), répartir entre eux, de la manière qu'il estime indiquée, les dommages-intérêts et les profits visés au paragraphe 35(1).

350 The asset purchase agreement whereby Mr. Bouthiette sold his business to his company Dispill Inc., dated January 1, 1998, makes no mention of any copyright in the Dispill Label Form (JBD 68). Of course, when interpreting an assignment or license, the Court may look at the context of the contract and the intent of the parties to determine its scope; however, care

must be taken not to give too wide an interpretation to an assignment or a license, given the clear objective of copyright law to protect creators (see Tamaro, Normand, *The 2012 Annotated Copyright Act* (Toronto: Thomson Carswell, 2012), at 419).

351 In the present case, I do not think that the Clause 1 of that Agreement, stating that "[l]e *vendeur* vend à l'*acquéreur*, qui l'achète, son entreprise de vente d'un système de dispensateur de médicaments, connue sous le nom de DISPILL..."[emphasis in original], explicit enough to encompass the alleged copyright in the Dispill Label Form. This is made even clearer by the description that is given of that enterprise in that same clause, which explicitly refers in Section C to the invention in the patent. It doesn't appear, therefore, that the parties to the agreement had the Dispill Label Form and the copyright possibly attaching thereto in mind, particularly as they made no reference to it despite referring explicitly to the patent. That Mr. Bouthiette did not assign his copyright in the Dispill Label Form to Dispill Inc. is also confirmed to a certain extent by another document, entitled "DISPILL - Interface Reference — Dispill Dosette and Unidose", dated March 31, 1998, which contains a copyright notice "Copyright Michel Bouthiette 1998".

352 It is worth mentioning that the DOS Dispill Label Form is alleged by Richards to have been created by Mr. Bouthiette "around 1996" (see Pre-Trial Conference Memorandum, para 17). At that point in time, Dispill Inc. was not yet in existence, as it was incorporated on November 11, 1997 (Agreed Statement of Facts, at para 3). Therefore, Dispill Inc. could not have acquired the copyright in the Dispill Label Form unless it was assigned to it by Mr. Bouthiette, and the fact that Mr. Bouthiette was an employee of Dispill Inc. is immaterial in that context.

353 On the basis of the foregoing, I find, on a balance of probabilities, that there was no valid assignment of copyright between Bouthiette and Dispill Inc., so that Dispill Inc. could not, later, properly assign the alleged copyright in the DOS Form to Richards.

354 As a result, it is no answer for Richards to rely on section 5.1(ee) of the Share Purchase Agreement dated July 29, 2005 (JBD 244) between Richards Packaging Holdings Inc. and 9120-0493 Québec Inc, Chantal Hebert, Étienne Bouthiette, Martin Bouthiette and Michel Bouthiette (collectively referred to as "Bouthiette" or "Guaranteeing Party") whereby Richards Packaging Holdings Inc. acquired, among other things, the shares owned by the Vendors in Dispill Inc. and all its intellectual property. Even assuming that this particular clause would have been broad enough to encompass any alleged copyright in the Dispill Label Form, Mr. Bouthiette and the other sellers could not transfer to the Plaintiff by Counterclaim more than what they owned in Dispill Inc.

355 Finally, neither Mr. Bouthiette nor any employee of Richards is the author of the Windows Form. Richards did not present any evidence to the effect that DLD assigned its copyright in the Mentor software or in the Windows Form to Dispill Inc. or to Richards. As such, Richards cannot claim to be the owner of any copyright in the Windows Form.

iv. Did The Defendants To The Counterclaim Infringe Any Copyright?

356 From 2005 to 2006, DLD created an application in its Mentor software allowing users to print the necessary information onto Distrimed container-sealing sheets. This is done by selecting the "Imprimer" ("Print") button in the second screen shot of the Windows Form (reproduced at para 147) then selecting the Distrimed icon that appears in the pop-up menu screen directly below Dispill Laser. According to Richards, the creation by DLD and the use by pharmacists of the function in the Mentor software that allows one to print onto Distrimed container-sealing sheets is an infringement of its copyright, and the Defendants to the Counterclaim authorized that infringement.

357 The *Copyright Act* defines infringement as follows:

27. (1) It is an infringement of copyright for any person to do, without the consent of the owner of the copyright, anything that by this Act only the owner of the copyright has the right to do.

27. (1) Constitue une violation du droit d'auteur l'accomplissement, sans le consentement du titulaire de ce droit, d'un acte qu'en vertu de la présente loi seul ce titulaire a la faculté d'accomplir.

358 In the case of a work, the copyright owner's exclusive rights are listed in section 3 of the *Copyright Act*:

3. (1) For the purposes of this Act, "copyright", in relation to a work, means the sole right to produce or reproduce the work or any substantial part thereof in any material form whatever, to perform the work or any substantial part thereof in public or, if the work is unpublished, to publish the work or any substantial part thereof,

...

and to authorize any such acts.

3. (1) Le droit d'auteur sur l'oeuvre comporte le droit exclusif de produire ou reproduire la totalité ou une partie importante de l'oeuvre, sous une forme matérielle quelconque, d'en exécuter ou d'en représenter la totalité ou une partie importante en public et, si l'oeuvre n'est pas publiée, d'en publier la totalité ou une partie importante

...

Est inclus dans la présente définition le droit exclusif d'autoriser ces actes.

359 The alleged infringer must therefore have reproduced the work itself or a substantial part thereof, or have authorized a third party to effect such reproduction, in order to be liable for copyright infringement by "reproduction".

360 The determination of what constitutes a "substantial" part of an original work is a question of fact, and will depend on the quality of what was taken from the original rather than on the quantity. In *U & R Tax Services Ltd.* above, at 268, this Court listed some of the factors that will be taken into consideration in assessing whether the copied part of a work is "substantial":

- a) the quality and quantity of the material taken;
- b) the extent to which the defendant's use adversely affects the plaintiff's activities and diminishes the value of the plaintiff's copyright;
- c) whether the material taken is the proper subject-matter of a copyright;
- d) whether the defendant intentionally appropriated the plaintiff's work to save time and effort; and
- e) whether the material taken is used in the same or a similar fashion as the plaintiff's.

361 In the case of works containing elements not protected by copyright, only similarities with respect to copyright-protected elements must be looked at, as it is not copyright infringement to copy ideas, arrangements or systems (*Moreau*, above, at paras 14-15). In the same vein, similarities between two works will not ground a finding of infringement if these similarities are in the public domain (*Philip Morris Products S.A. v. Marlboro Canada Ltd.*, 2010 FC 1099 (F.C.), at para 320, aff'd on copyright issues at 2012 FCA 201 (F.C.A.) [*Philip Morris Products S.A.*]). Access to the work by the alleged infringer must also be established; if the second work was created independently, there will be no infringement (*U & R Tax Services Ltd.*, above, at 268; *Philip Morris Products S.A.*, above, at para 320). Finally, "to authorize", for the purposes of copyright law, must be interpreted restrictively as "to sanction, approve and countenance". Accordingly, courts will presume that a person who authorizes something does so "only so far as it is in accordance with the law" (*CCH*, above at paras 37-38, 43).

362 Even if this Court were to find that copyright subsists in one or many versions of the Dispill Label Form and that Richards owned such copyright, there is no evidence that the Defendants to the Counterclaim illegally reproduced any of these versions, or that they authorized someone else to make such a reproduction.

363 Counsel for the Plaintiff by Counterclaim submitted that when Distrimedic first launched its product, toward the end of 2005, it had not yet entered into an agreement with DLD to print the Distrimedic labels (which was subsequently signed on September 6, 2006), and therefore "it appears the DLD software pointed their applications to the Dispill laser to print the

Distrimed labels", at least during that period of time. This, however, is pure speculation. It appears that Dispill initially sold an 8 1/2 x 10 label only, but later sold an 8 1/2 x 11 label as well (Agreed Statement of Facts, para 38), whereas Distrimed sold only the A4 (8 1/2 x 11) format in the relevant period. Even if the Distrimed sheets that were sold during that period were the same size as that of the Dispill sheets, Dr. Abdelrahman said that they would have to be exactly the same to print properly using the Dispill module. He also said that he could not, not having reviewed the source codes of the Windows Form and Distrimed Module, confirm whether or not the program module that executes when the Dispill option is selected was made to execute the Distrimed Module as well. Finally, Richards presented no evidence at all of what occurs if one chooses the Distrimed option in the printing menu of the Mentor software.

364 There is evidence that the DOS Form was abandoned long before Distrimed was incorporated and entered the market. Consequently, Distrimed cannot be said to have used, reproduced or authorized the reproduction of the DOS Form. Even if some elements of the DOS Form found their way into the Distrimed Module, these elements did not constitute a substantial part of the DOS Form and were not the expression of an author's original or literary work, as discussed above. As for the Windows Form itself, Richards does not own any copyright in it. Consequently, the programming, presumably by employees of DLD, of a Distrimed Application in the Mentor software (that not surprisingly uses the same interface as the Windows Form and pops up in the same manner prior to printing), cannot be said to constitute infringement of any of Richards' alleged copyrights.

365 Richards has presented no tangible evidence of Distrimed having authorized anyone to reproduce any portion of the DOS Form or Windows Form, or to otherwise infringe upon Richards' allegedly copyrighted material. If Distrimed instructed DLD to create the Distrimed Module, which allows users of the Mentor software to print onto Distrimed's container-sealing sheets, using similar fields to those used for the Dispill product, that is simply because those fields are required by law and/or are obvious fields to be displayed on a pill dispenser. Even if there were infringement of Richards' alleged copyright by the programmers of the Windows program, the Defendants to the Counterclaim cannot be said to have authorized such infringement, as none of the Defendants to the Counterclaim have a sufficient degree of control over the activities of DLD so as to be said to have "sanctioned, approved or countenanced" any infringement. In any event, it must be presumed that a person who authorizes an activity does so only to the extent that it is in accordance with the law.

366 For all of the foregoing reasons, Richards' copyright claim must fail as it is not substantiated by the evidence and finds no support in the applicable legal principles.

VII. Conclusion

367 Having found that the Defendants to the Counterclaim have not infringed any patent or copyright of Richards, and have not misrepresented their wares, services or business, or passed off such wares, services or business as being in any way associated with Richards' business or products, Richards' counterclaim must be dismissed entirely. As a result, there is no need to make any finding with respect to liability.

368 The Defendants to the Counterclaim are entitled to their costs. In the event that the parties cannot agree on the amount of costs within 30 days from the issuance of this judgment, they may make submissions to this Court. The parties will have a further 15 days to make reply submissions, if they so choose.

Judgment

THIS COURT'S JUDGMENT is that the counterclaim be dismissed in its entirety, with costs. In the event that the parties cannot agree on the amount of costs within 30 days from the issuance of this judgment, they may make submissions to this Court. The parties will have a further 15 days to make reply submissions, if they so choose.

Action dismissed.

Appendix

United States Patent [19]

[11] 3,780,867

Braveman

[45] Dec. 25, 1973

[54] *MEDICINAL DISPENSING DEVICE*
 [75] Inventor: *Milton Braverman*, Philadelphia, Pa.
 [73] Assignee: *Medi-Dose, Inc.*, Sellersville, Pa.
 [22] Filed: *July 26, 1971*
 [21] Appl. No.: *166,165*

[52] *U.S. Cl.* 206/56 AB, 206/42
 [51] *Int. Cl.* B65d 83/04, B65d 85/56
 [58] *Field of Search* 206/56 AB, 56 A, 206/42, 46 P, 46 F; 53/390, 371, 373

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Primary Examiner — William T. Dixon, Jr.

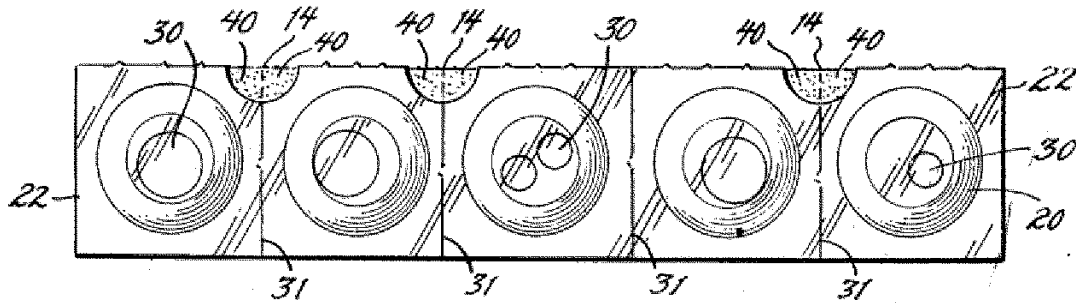
Attorney — Caesar, Rivise, Bernstein & Cohen

[57] *ABSTRACT*

A medicinal dispensing device comprising a plurality of flanges having corners and being detachably connected along certain lines so that each flange may be separated from the remaining flanges, a chamber with an outer opening depending from each flange, the chamber being adapted to hold a drug, tablet, capsule, etc., a continuous closure member covering said chamber openings with certain portions of the interior surface of the closure member being in contact with the flanges, the closure member being perforated along certain lines closely corresponding to the flange lines, certain portions of the interior surface of the closure member being provided with a tacky adhesive coating which is in contact with said flanges, and certain other areas of the interior surface of the closure member being non-tacky and covering the chamber openings, at least one corner of each flange being removed in a cut-away area so that the existing corner of the closure member overlies the cut-away area to function as a lift tab to facilitate the separation of a portion of the closure member from a particular flange to provide access to the contents of the chamber.

The flanges are preferably provided in groups of 25, there being a cut-away area for at least one corner of every flange that is provided by the formation of a minimum number of punched openings, which minimum number is far less than the total number of 16 intersections that exist in a 5 × 5 pattern of flanges.

2 Claims, 17 Drawing Figures

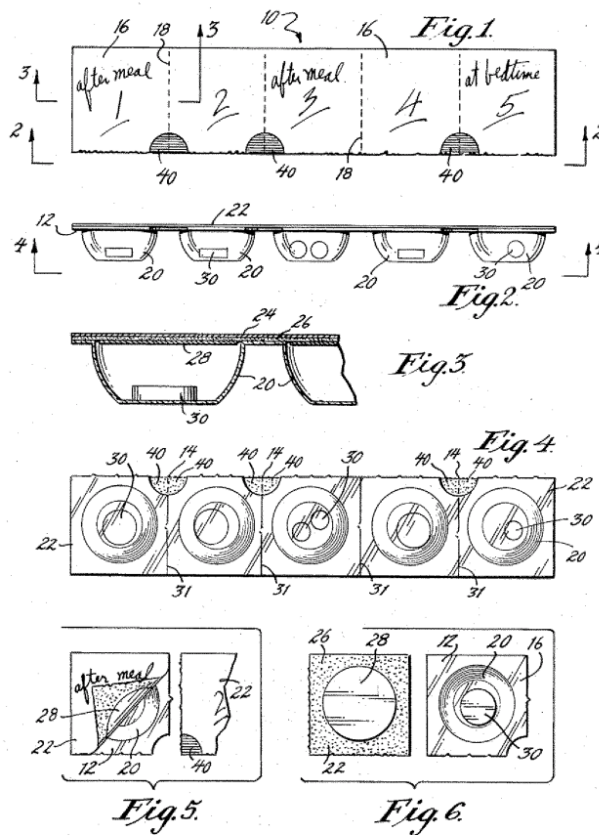


Graphic P-160

PATENTED DEC 25 1973

3.780.856

SHEET 1 OF 3



Graphic P-161

INVENTOR.
MILTON BRAVERMAN
BY
*Caesar, Rivise,
Bernstein & Cohen*
ATTORNEYS.

PATENTED DEC 25 1973

3,780,856

SHEET 2 OF 3

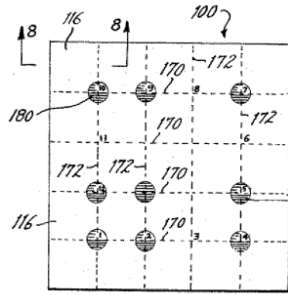


Fig. 7

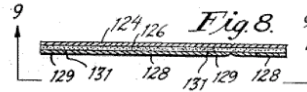


Fig. 8

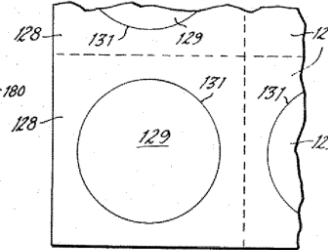


Fig. 9

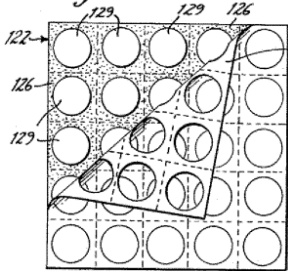


Fig. 12

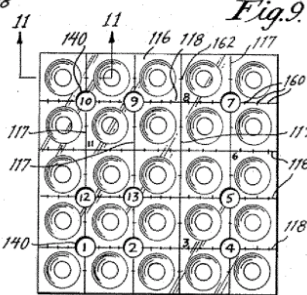


Fig. 10

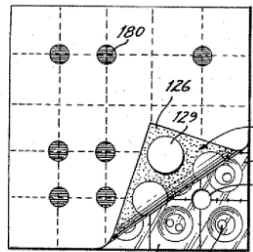


Fig. 13

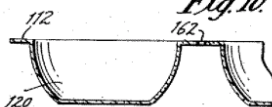
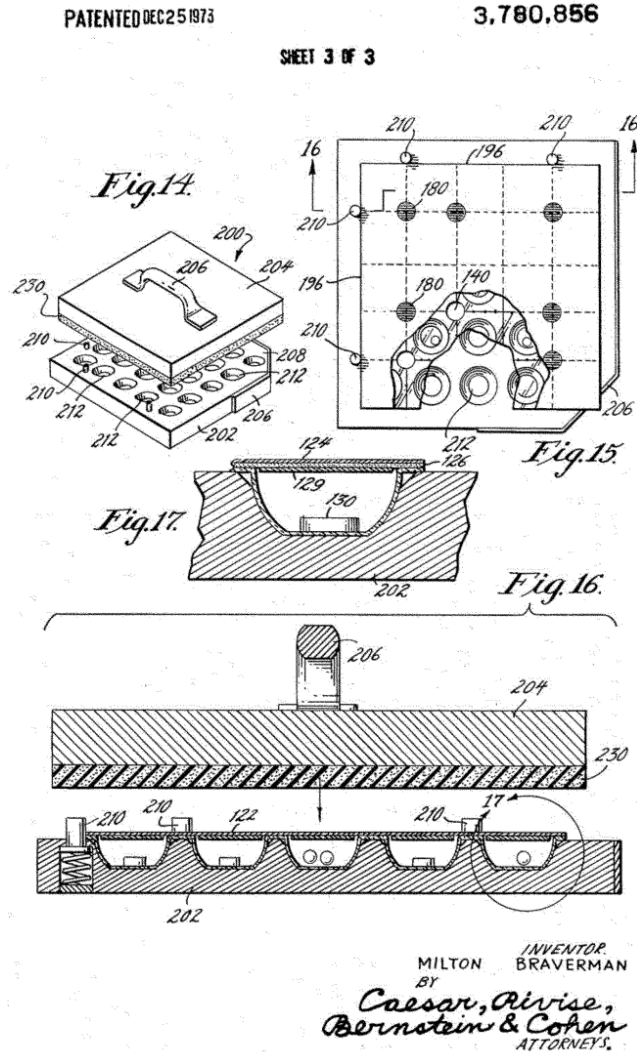


Fig. 11

INVENTOR.
MILTON BRAVERMAN
BY
*Caesar, Rivise,
Bernstein & Cohen*
ATTORNEYS.

Graphic P-162



Graphic P-163

Medicinal Dispensing Device

The present invention relates to a medicinal dispensing device and has as its objective the provision of a new and improved device of this general class.

The dispensing of various medicines and drugs to patients in a hospital is necessarily a time consuming task that is greatly complicated by the usual large number of patients to be serviced. This is further complicated by the ever changing composition of the patients with continuous admissions and discharges.

In view of the foregoing, it is necessary for the attending nurse carefully to examine the instructions furnished for each patient, and carefully to dispense a particular combination of pills and other medicinal items.

The present invention, however, has broader aspects in that the chamber of the dispensing device need not necessarily accept a drug, tablet or capsule, but instead could hold a liquid or even function as a receptacle for non-drug items. Furthermore, the present invention contemplates the use of a novel assembly device to produce the dispensing device.

It is therefore an object of the present invention to provide a medicinal dispensing device which can be simply loaded and labelled by hospital or other personnel and which provides an effective device for the dispensing of medicinal items. While U.S.

Pat. No. 3,503,493 discloses a multi-compartment arrangement, nevertheless, such a device is suitable only for mass production and not for manual unit dose.

The foregoing, as well as other objects of the invention, are achieved by providing a medicinal dispensing device comprised of a plurality of flanges, each having corners and being detachably connected along weakened lines. A chamber with an outer opening depends from each flange, and a continuous closure member then covers the chambers, with the closure member also being perforated along lines closely corresponding to the weakened lines of the flanges. Certain portions of the interior surface of the closure member are provided with a tacky adhesive coating that is in contact with the flanges and certain other areas of the interior surface of the closure member being non-tacky and covering the chamber openings. At least one corner of each flange is removed in a cut-away area so that the existing corner of the closure member overlies the cut-away area to function as a lift tab.

In a preferred embodiment of the invention, 25 flanges are detachably connected in a 5×5 pattern, there being a first set of parallel weakened lines in said flanges and a second set of parallel weakened lines in said flanges, said first set of parallel lines being perpendicular to the second set of parallel lines, with the connection of said flanges, one to the other, being weaker along said first set of parallel lines and being stronger along said second set of parallel lines whereby it is much easier to sever the set of 25 flanges into five sets of five flanges along said first parallel lines. Furthermore, at nine of the intersections between the first and second parallel lines, there are provided circular punched openings, each of which act as a cut-away area for the four flanges meeting at the intersection of the first and second parallel lines, with the nine punched openings providing at least one cut-away area for each of the 25 flanges.

It will be seen that the first and second parallel lines meet in 16 intersections or interconnecting lines or net-work to define a pattern of 12 outer sections and four inner intersections. The 12 outer intersections are arbitrarily numbered from 1 to 12 in a counterclockwise sense, and there will be punched openings at at least intersections nos. 1, 2, 4, 5, 7, 9, 10 and 12. There will also be a punched opening at the intersection which constitutes the fourth corner of a square wherein the other three corners are defined by intersections nos. 1, 2 and 12. With this arrangement, a minimum number of punched openings is provided so that there will be a portion of a punched opening in a corner of each flange so that the corner of the closure member in contact with the flange is always free of the flange where the punched opening has been formed in the flange. In this way, the corner of the closure member always is readily accessible for lifting in order to facilitate the separation of the closure member from the flange when the patient desires to gain access to the material held in the chamber that depends from the flange.

Other objects and many of the attendant advantages of the invention will become more readily apparent by reference to the accompanying drawings wherein:

FIG. 1 is a plan view showing a medicinal dispensing device constituting a first embodiment of the present invention;

FIG. 2 is an elevational view taken along the lines 2 — 2 of FIG. 1;

FIG. 3 is an enlarged sectional view taken along the lines 3 — 3 of FIG. 2;

FIG. 4 is a bottom plan view taken along the lines 4 — 4 of FIG. 3;

FIG. 5 is a view of two dispensing units with the cover member of one of the units partially removed;

FIG. 6 is a view showing the cover member of FIG. 5 completely removed and showing the interior surface of the cover member as well as the exposed chamber and flange of the dispensing unit;

FIG. 7 is a plan view of another embodiment of the medicinal dispensing device as an invention;

FIG. 8 is an enlarged partial sectional view taken along the lines 8 — 8 of FIG. 7;

FIG. 9 is a fragmentary bottom plan view taken along the lines 9 — 9 of FIG. 8;

FIG. 10 is a plan view of the dispensing device of FIG. 7 with the closure member removed;

FIG. 11 is an enlarged sectional view taken along the lines 11 — 11 of FIG. 10;

FIG. 12 is a plan view showing the underside of the closure member with the anti-stick liner partially removed;

FIG. 13 is a view similar to FIG. 7 with the closure member partly removed;

FIG. 14 is a three-dimensional view showing an assembly mechanism used to produce the device of FIGS. 6 to 13;

FIG. 15 is a plan view showing the various components of FIGS. 7 to 13 laid up in proper registration;

FIG. 16 is an enlarged sectional view taken along the lines 16 — 16 of FIG. 15; and

FIG. 17 is an enlarged view showing the various components of a particular unit during the manufacturing process.

Referring now in greater detail to the various FIGURES of the drawing wherein like reference characters refer to like parts, there is generally shown at 10 in FIG. 1 a medicinal dispensing device 10 comprising flanges 12 having corners 14 (FIG. 4). The dispensing device 10 is actually comprised of individual units 16 that are detachably connected together along lines 18. Chambers 20 depend from the flanges 12 with each chamber 20 being adapted to hold a drug, tablet, capsule, liquid or other device. The chambers 20 each have an open end that is covered by a closure member 22 that is comprised (FIG. 3) of a base 24 bearing tacky adhesive coating 26 on one surface thereof. A non-stick liner comprised of circular portions 28 prevents the contents 30 in the chamber 20 from becoming adhered to tacky surface 26.

It should be noted from FIG. 4 that the closure member 22 may be separated along lines 31 so that each unit 16 may be severed from the other units 16. Furthermore, the outer surface of the closure member 22 is adapted to contain writing or other instructions to the patient.

With reference to FIGS. 1 and 4, it can be seen that at least one corner of the closure member 22 has a cut-away portion 40, it being recognized that it is necessary for only one corner of each unit 16 to have a cut-away portion. This is sufficient to gain access to the underside of the closure member 22 to peel it, together with its adhesive surface, away from flange 12 (FIG. 5). As seen in FIG. 6, a unit 16 comprised of the flange 12 and chamber 20 is now separate from the closure member 22 with tacky adhesive coating 26 and non-stick portion 28.

Another embodiment of the invention is shown in FIGS. 7 to 13 wherein the medicinal dispensing device 100 provides 25 units at a time, with there being at least one cut-away area 140 for each unit 116. Otherwise, the medicinal device 100 is similar in certain respects to the device 10, and similar reference characters are used. Thus, there is a first set of parallel weakened lines 118 in the flanges 116 (FIG. 10), but in the embodiment 100 there is also a second set of parallel weakened lines 117 which run perpendicular to the first set of parallel weakened lines 118.

It will be seen from FIG. 10 that the first set of weakened lines 118 carries three indentations 160 for each side of the units 116 whereas the second set of weakened lines 117 carries but a single indentation 162 per unit 116. These indentations are actually strengthening welds wherein the thermoplastic material of the flanges 122 is caused to flow. Thus, in view of the three indentations 160, it is more difficult to separate the units 116 along the weakened lines 118. Instead, it is easier to separate the units 116 along weakened lines 117. For this reason, a device 100 can be more easily separated into five, five unit devices along weakened lines 117, and this gives assurance that the device 100 will always be subdivided in a desired manner. Thus, the pharmacist, physician or nurse can be sure of the way in which the patient will use each individual unit 116 in a prescribed sequence.

As shown in FIG. 8, the closure member 124 is provided with a tacky adhesive coating 126 on its interior surface. The tacky surface 126 is covered by a non-stick liner that is subdivided into discrete circular portions 128 and sheet portion 129 along cuts 131. This construction is readily apparent from FIG. 12 which shows the removal of the sheet portion 129 of the non-stick liner, leaving behind circular portions 128 that remain adhered to tacky adhesive surface 126. Furthermore, the non-stick

liner is subdivided into two portions corresponding to each unit 116 along weakened lines 170 and 172 that run perpendicular to each other.

With reference again to FIG. 10, it can be seen that openings 140 are strategically placed at the inner sections of lines 117 and 118, with the openings 140 being established by a punch in a well known manner. It had been determined that the simultaneous punching of openings at all the various intersections defining the units 116 was impractical since it was not always possible to guarantee a perfect registration of all punching dies which also would wear as time went on. Thus, the present invention has devised a technique of forming punched openings at only certain of the intersections of lines 117 and 118 separating the various units 112. By this strategic selection it is possible to insure that there will be at least one cut away area for each unit in a 25 unit set-up.

It will be seen that the first and second parallel lines 118 and 117 meet in 16 intersections or interconnecting lines or network to define a pattern of 12 outer intersections that carry the consecutive numbers 1 to 12 in FIG. 7 and FIG. 10 as well as four inner intersections, only one of which has been labelled as intersection no. 13. As shown in FIG. 10, it is necessary only to form punched openings at intersections Nos. 1, 2, 4, 5, 7, 9, 10 and 12, as well as interior intersection no. 13. By this technique, there is a cut away area in at least one corner of each unit 116. The avoidance of the necessity to form cut away areas in intersections nos. 3, 6, 8, 11 and three of the four interior intersections is sufficient to insure adequate operations of the punching dies.

For ease of use, the outer surface of the closure member 116 contains printed areas 180 which correspond to the punched openings 140 in the flanges 112. Thus, the user will know where the punched openings exist by simply looking at the printed areas 180.

From FIG. 13 it can be seen that the closure member 122 is simply adhered to exposed flanges 112 after the annular portion 129 of the non-stick liner has been separated from the remainder of the non-stick liner, as shown in FIG. 12.

In order to prepare a device 100, an assembly fixture 200 of FIG. 14 may be used. This device consists of a base 202 and a pressure applying member 204 with handle 206. The base 202 includes a liner strip 206 covering nipped corner 208 and, furthermore, the base 202 has a plurality of openings 210 corresponding to the flanges in the dispensing unit. The openings 210 possess chamfered edges to facilitate the entry of the chambers 120 of the dispensing units. Furthermore, spring loaded pins 212 are provided to facilitate the release of the pressure applying member 204 away from the base 202.

The use of the device 200 is illustrated in FIG. 16 wherein a 25 unit piece, corresponding to that shown in FIG. 11 is placed in the base 202 so that each of the flanges 120 is received in an opening 210. The closure member 122 is then stripped of the annular portion 129 of the non-stick liner and then is applied. The resilient pins are properly arranged so as to guide the placement of the closure member as can be seen in FIG. 15 wherein edges 196 of the closure member are in actual contact with the pins 210. The pressure applying member 204 is then brought down upon the closure member 122. For this purpose, the pressure applying member 204 possesses a resilient layer 230 so that the pressure of the member 204 is yieldingly applied to the closure member 122. As soon as the pressure is released, the member 204 is ejected away from the base 202 by the pins 210.

It is thus seen that the assembly device 200 provides a quick and convenient way for production of the devices 100. Furthermore, the unit dose features of devices 10 or 100 offer extensive advantages to the pharmacist and accuracy to the patient or user in the dispensing of medicine or other articles in a predetermined sequence.

Without further elaboration, the foregoing will so fully illustrate our invention that others may, by applying current or future knowledge, readily adapt the same for use under various conditions of service.

What is claimed as the invention is:

1. A medicinal dispensing device comprising 25 units arranged in a square having five units on a side, each unit including flanges having corners and being detachably connected along certain lines so that each flange may be separated from the remaining flanges, a chamber depending from each flange, said chamber having an outer opening, with the chamber being adapted to hold an article, a closure member covering said chamber openings, said closure member having an interior

surface which is in contact with said flanges, said interior surface carrying a tacky adhesive which contacts said flanges, the closure member being perforated along certain lines closely corresponding to the flange lines, at least one corner of each flange being removed in a cut-away area to facilitate separation of the portion of the closure member in contact with each flange, said flanges being detachably connected along first and second groupings of weakened lines, generally perpendicular to each other, said weakened lines meeting in 16 intersections consisting of 12 outer intersections and four inner intersections with the outer intersections being numbered consecutively from 1 to 12, there being punched openings at intersections numbers 1, 2, 4, 5, 7, 9, 10 and 12 as well as a punched opening at the intersection which constitutes the fourth corner of a square wherein the other three corners are defined by intersections numbers 1, 2 and 12.

2. The medicinal dispensing device of claim 1 wherein the intersections of the perforations in said closure member contain indicators to show the existence of the punched openings in the weakened lines of said flanges.

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Footnotes

- * A corrigendum issued by the court on March 5, 2014 has been incorporated herein.

Tab 9

2007 SCC 37
Supreme Court of Canada

Kraft Canada Inc. v. Euro Excellence Inc.

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Euro-Excellence Inc., Appellant and Kraft Canada Inc., Kraft Foods Schweiz AG and Kraft Foods Belgium SA, Respondents and Retail Council of Canada and Alliance of Manufacturers & Exporters Canada, Interveners

Abella J., Bastarache J., Binnie J., Charron J., Deschamps J., Fish J., LeBel J., McLachlin C.J.C., Rothstein J.

Heard: January 16, 2007

Judgment: July 26, 2007

Docket: 31327

Proceedings: reversing *Kraft Canada Inc. c. Euro Excellence Inc.* (2005), (sub nom. *Kraft Canada Inc. v. Euro Excellence Inc.*) [2006] 3 F.C.R. 91, 265 D.L.R. (4th) 555, 2005 FCA 427, 2005 CarswellNat 4933, [2005] A.C.F. No. 2082, 346 N.R. 104, 2005 CAF 427, 2005 CarswellNat 4619, 47 C.P.R. (4th) 113 (F.C.A.); reversing in part *Kraft Canada Inc. v. Euro Excellence Inc.* (2004), 2004 CarswellNat 5579, [2004] 4 F.C.R. 410, 252 F.T.R. 50, 33 C.P.R. (4th) 246, [2004] F.C.J. No. 804, 2004 CarswellNat 1371, 2004 FC 652 (F.C.)

Counsel: François Boscher, Pierre-Emmanuel Moyses, for Appellant

Timothy M. Lowman, Kenneth D. McKay, for Respondents

Howard P. Knopf, Elizabeth G. Elliott, for Intervener, Retail Council of Canada

R. Scott Jolliffe, James H. Buchan, for Intervener, Alliance of Manufacturers & Exporters Canada

Subject: Civil Practice and Procedure; Intellectual Property; Constitutional; Property

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Copyright Act, 1921, S.C. 1921, c. 24

Generally — referred to

Copyright Act, R.S.C. 1985, c. C-42

Generally — referred to

s. 2 "copyright" (a) — considered

s. 2 "infringing" — referred to

s. 2.7 [en. 1997, c. 24, s. 2] — considered

s. 3 — considered

s. 3(1) "copyright" (a) — referred to

s. 13(4) — considered

s. 13(4) [rep. & sub. 1997, c. 24, s. 10(2)] — referred to

s. 13(5) — considered

- s. 13(6) — referred to
- s. 13(7) — considered
- s. 13(7) [en. 1997, c. 24, s. 10(2)] — considered
- s. 27 — considered
- s. 27(1) — considered
- s. 27(2) — considered
- s. 27(2)(a) — considered
- s. 27(2)(a)-27(2)(d) — referred to
- s. 27(2)(e) — considered
- s. 36(1) — considered
- s. 36(2) — considered
- s. 64 — considered
- s. 64(2) — referred to
- s. 64(3)(b) — considered

Copyright Act, 1911 (1 & 2 Geo. 5), c. 46

Generally — referred to

Copyright Act, 1909

Generally — referred to

Copyright Amendment Act (No. 1) 1998, No. 104, 1998

Sched. 2 — referred to

Copyright, Designs and Patents Act, 1988, c. 48

Generally — referred to

- s. 90(1) — referred to
- s. 92(1) "exclusive licence" — considered
- s. 101(1) — considered

Copyrights Act, 1997, 17 U.S.C.

Generally — referred to

Chapter 1, s. 101 "transfer of copyright ownership" — considered

Patent Act, R.S.C. 1985, c. P-4

Generally — referred to

Trade-marks Act, R.S.C. 1985, c. T-13

Generally — referred to

s. 13(2) — referred to

Statutes considered by *Fish J.*:

Copyright Act, R.S.C. 1985, c. C-42

Generally — referred to

Statutes considered by *Bastarache J.*:

Copyright Act 1968, No. 163, 1968

Generally — referred to

Copyright Act, R.S.C. 1985, c. C-42

Generally — referred to

s. 2.7 [en. 1997, c. 24, s. 2] — referred to

s. 3(1) "copyright" — referred to

s. 13(6) — referred to

s. 27(2) — considered

s. 27(2)(a) — considered

s. 27(2)(a)-27(2)(c) — referred to

s. 27(2)(b) — considered

s. 27(2)(c) — considered

s. 27(2)(e) — referred to

s. 36(1) — considered

s. 64(3)(b) — considered

Trade-marks Act, R.S.C. 1985, c. T-13

Generally — referred to

Statutes considered by *Abella J.*:

Copyright Act, R.S.C. 1985, c. C-42

Generally — referred to

s. 2.7 [en. 1997, c. 24, s. 2] — considered

s. 13(4) — considered

- s. 13(6) — considered
- s. 13(5) — considered
- s. 13(7) — considered
- s. 27(2) — considered
- s. 27(2)(a)-27(2)(c) — referred to
- s. 27(2)(e) — considered
- s. 36(1) — considered
- s. 64(3)(b) — considered

Words and phrases considered

licensee

[Per Rothstein J. (Binnie and Deschamps JJ. concurring):] A contextual reading of the *Copyright Act* [R.S.C. 1985, c. C-42] reveals that Parliament has preserved the traditional distinction between assignees and licensees with some modification. Under the present Act, there is a distinction between "assignee", "licensee" and "exclusive licensee". An assignee possesses full ownership rights in the copyright with respect to the rights assigned. A non-exclusive licensee has no property rights in the copyright, and enjoys only contractual rights *vis-à-vis* the owner-licensor. As a result, it cannot sue for infringement. An exclusive licensee, on the other hand, has a limited property interest in the copyright. . . . this limited property interest enables the exclusive licensee to sue third parties for infringement but precludes the exclusive licensee from suing the owner-licensor for infringement.

grant of an interest

[Per Rothstein J. (Binnie and Deschamps JJ. concurring):] The use of the term "grant of an interest" in ss. 13(4) and 13(7) [of the *Copyright Act*, R.S.C. 1985, c. C-42] would seem to refer to the granting of a property right. This language stands out in comparison to s. 2.7, which suggests that an exclusive licence is not a "grant of an interest" but rather a non-proprietary "authorization" to do something that would otherwise amount to infringement.

.....

In my view, the exclusive licensee's property interest in the copyright is limited. An exclusive licence is not a complete assignment of copyright. The owner-licensor retains a residual ownership interest in the copyright. The owner-licensor's residual ownership interest precludes it from being liable for copyright infringement. An owner-licensor is liable to its exclusive licensee for breach of the licensing agreement but not for copyright infringement.

APPEAL by unauthorized distributor from judgment reported at *Kraft Canada Inc. c. Euro Excellence Inc.* (2005), (sub nom. *Kraft Canada Inc. v. Euro Excellence Inc.*) [2006] 3 F.C.R. 91, 265 D.L.R. (4th) 555, 2005 FCA 427, 2005 CarswellNat 4933, [2005] A.C.F. No. 2082, 346 N.R. 104, 2005 CAF 427, 2005 CarswellNat 4619, 47 C.P.R. (4th) 113 (F.C.A.), allowing in part appeal from judgment ordering damages and injunction with respect to copyrighted logos.

POURVOI du distributeur non autorisé à l'encontre d'un jugement publié à *Kraft Canada Inc. c. Euro Excellence Inc.* (2005), (sub nom. *Kraft Canada Inc. v. Euro Excellence Inc.*) [2006] 3 F.C.R. 91, 265 D.L.R. (4th) 555, 2005 FCA 427, 2005 CarswellNat 4933, [2005] A.C.F. No. 2082, 346 N.R. 104, 2005 CAF 427, 2005 CarswellNat 4619, 47 C.P.R. (4th) 113 (F.C.A.),

ayant accueilli en partie un appel interjeté à l'encontre d'un jugement ayant accordé des dommages-intérêts et ordonné une injonction en rapport avec des logos protégés par le droit d'auteur.

Rothstein J.:

1 I have read the reasons of Bastarache J. While I agree with his conclusion, I am respectfully unable to agree with his analysis. I have three main concerns with his reasons.

(1) The Concerns

2 This Court has repeatedly adopted Driedger's approach to statutory interpretation:

Today there is only one principle or approach, namely, the words of an Act are to be read in their entire context and in their grammatical and ordinary sense harmoniously with the scheme of the Act, the object of the Act, and the intention of Parliament. (E. A. Driedger, *Construction of Statutes* (2nd ed. 1983), at p. 87; see also *Bell ExpressVu Ltd. Partnership v. Rex*, [2002] 2 S.C.R. 559, 2002 SCC 42 (S.C.C.), at para. 26; *CCH Canadian Ltd. v. Law Society of Upper Canada*, [2004] 1 S.C.R. 339, 2004 SCC 13 (S.C.C.), at para. 9.)

3 I am concerned that Bastarache J.'s approach in this case is inconsistent with this Court's approach to statutory interpretation. The "modern" or "purposive" approach requires that the words of the statute "in their grammatical and ordinary sense" be read harmoniously with the objects of the Act. It does not, however, give judges licence to substitute their policy preferences for those of Parliament. This Court has consistently held that "copyright is a creature of statute and the rights and remedies provided by the *Copyright Act* are exhaustive": see *CCH*, at para. 9; *Galerie d'art du Petit Champlain inc. c. Théberge*, [2002] 2 S.C.R. 336, 2002 SCC 34 (S.C.C.), at para. 5; *Bishop v. Stevens*, [1990] 2 S.C.R. 467 (S.C.C.), at p. 477; *Compo Co. v. Blue Crest Music Inc.* (1979), [1980] 1 S.C.R. 357 (S.C.C.), at pp. 372-73. In my respectful view, Bastarache J.'s reasons depart from this doctrine.

4 Throughout his reasons, Bastarache J. relies on a distinction between copyrighted works that are sold and works that are "merely incidental" to the item being sold. He concludes that since the Toblerone and Côte d'Or logos are merely incidental to the thing being sold (the chocolate bar), they do not receive copyright protection. I understand this distinction to be the crux of his analysis. However, I see no statutory authority for the proposition that "incidental" works are not protected by the *Copyright Act*, R.S.C. 1985, c. C-42. This Court's holding in *CCH* confirms that all artistic works receive the protection of copyright if they meet the requisite standards of "skill and judgment": *CCH*, at para. 16. The *Copyright Act* does not exempt so-called "incidental" works from its protection. Neither Bastarache J. nor any of the parties contest that the Côte d'Or and Toblerone logos resulted from exercises of skill and judgment. As such, they are legitimate subjects of copyright.

5 I note that the "incidental" approach is similar to the Australian approach to this issue. However, the Australian approach was prescribed by statute and not by judges. In 1998, the Australian Parliament made a deliberate policy decision to amend its *Copyright Act 1968*, (Cth.), No. 63, to exclude "accessories" from the domain of copyright for the purposes of parallel importation (*Copyright Amendment Act (No. 1) 1998* (Cth.), No. 104, Schedule 2). Under s. 10(1) of the Australian *Copyright Act 1968*, as amended, an infringing work includes a work that was "imported without the licence of the owner of the copyright, [and] would have constituted an infringement of that copyright if the article had been made in Australia by the importer, *but does not include: ... (g) a non-infringing accessory whose importation does not constitute an infringement of that copyright*". The Australian Act defines "accessory" so as to include the labels and packaging that accompany an article. The Canadian *Copyright Act*, in contrast, has not exempted accessories or incidental works from the protection of copyright, and it is not for this Court to create such an exemption.

6 Even if one were to accept that "incidental" works are not protected under Canadian copyright law, it is not apparent from Bastarache J.'s reasons when a work will be considered "merely incidental". The "reasonable consumer" test proposed at para. 94 offers little guidance on how to determine whether a work is "merely incidental". Para. 95 draws a distinction between a small logo and a larger painting of that same logo on a t-shirt. However, according to Canadian copyright law, it is skill and judgment — not the size of the work — that determines whether a work receives protection under the *Copyright Act*.

7 To support his argument for the "incidental" approach to copyright law, Bastarache J. introduces a concept of "legitimate economic interests" to read down rights expressly granted by the *Copyright Act*. The term "legitimate economic interest" was used by this Court in *Théberge*, but in a different context. The legitimate economic interest described in *Théberge* was the right of the creator of an artistic work to receive a reward for that work. The issue in *Théberge* was whether the transferring of an artistic work from a paper backing to a canvas backing constituted reproduction contrary to the "legitimate economic interests" of the artist. Binnie J., for the majority, found that reproduction did not occur on the facts of that case. Binnie J.'s holding relied on the concepts of originality and reproduction, which are firmly rooted in the words of the *Copyright Act*.

8 In this case, Bastarache J. expands the concept of "legitimate economic interest" to exclude logos on wrappers from the domain of copyright. I find no authority in the Act or in our jurisprudence for Bastarache J.'s theory of "legitimate economic interests". As this Court has often stated, "the rights and remedies provided by the *Copyright Act* are exhaustive": *CCH*, at para. 9. I would not depart from this approach by introducing a new equitable doctrine of "legitimate economic interest" to read down the legislation.

9 I accept, of course, that the *Copyright Act* is to be given a purposive interpretation. However, I distinguish between an approach that is rooted in the words of the Act and the approach taken by my colleague Bastarache J. that involves reading words into the legislation that are at odds with Parliament's intent. Section 64 of the *Copyright Act*, which can be found, along with the other relevant provisions of the *Copyright Act*, in the Appendix, addresses the very issue that is fundamental to my colleague's approach: can a work of art appearing on a label and receiving trade-mark protection also be the subject of copyright protection? Parliament concluded that works can receive concurrent copyright and trade-mark protection.

10 To that end, Parliament adopted s. 64 of the current Act, which excludes certain functional articles from copyright protection, but affirms that copyright shall subsist in "a trade-mark or a representation thereof or a label". Parliament enacted this provision after having turned its mind to the possibility of overlap between trade-mark and copyright law. Were the Court to hold that the Kraft labels cannot be subjects of trade-mark and copyright concurrently, we would be substituting a different policy preference from that chosen by Parliament.

11 It is for this reason that I must respectfully disagree with Bastarache J.'s attempted analogy between the present case and *Kirkbi AG v. Ritvik Holdings Inc. / Gestions Ritvik Inc.*, [2005] 3 S.C.R. 302, 2005 SCC 65 (S.C.C.). In *Kirkbi*, this Court held that trade-mark law cannot be leveraged to extend protection to subjects that are ordinarily the domain of patent law. Bastarache J. suggests that *Kirkbi* stands for the further proposition that the subjects of copyright law and trade-mark law must not overlap and that because it is trade-mark law that ordinarily protects market share and goodwill, copyright holders cannot use copyright to protect their market share or the goodwill associated with their brand.

12 I do not read *Kirkbi* as underpinning a broad doctrine of copyright misuse. Although the Court in *Kirkbi* cautioned against interpreting trade-mark law in a way that undermined the *Patent Act*, R.S.C. 1985, c. P-4, the decision in that case was anchored in the language of the *Trade-marks Act*, R.S.C. 1985, c. T-13, itself and not in a vague notion of trade-mark misuse. In *Kirkbi*, this Court held that the *Trade-marks Act* had expressly incorporated the "doctrine of functionality" in s. 13(2) of the Act (para. 14). LeBel J., writing for the Court, held that "[t]his doctrine recognizes that trade-marks law is not intended to prevent the competitive use of utilitarian features of products, but that it fulfills a source-distinguishing function": *Kirkbi*, at para. 43. By incorporating the doctrine of functionality, s. 13(2) of the *Trade-marks Act* had precluded the granting of trade-mark protection to functional works, which are the subjects of patent law.

13 The difficulty in attempting to analogize this case and *Kirkbi* is that the Court in *Kirkbi* relied on a provision of the *Trade-marks Act* in order to find that there could be no overlap between trade-mark and patent. In contrast, s. 64(3)(b) of the *Copyright Act* permits a single work to be the subject of both copyright and trade-mark protection. In other words, Parliament has authorized an overlap between copyright and trade-mark. I do not doubt the wisdom of LeBel J.'s general statement, at para. 37 of *Kirkbi*, that it is important to bear in mind the "basic and necessary distinctions between different forms of intellectual property and their legal and economic functions". However, this guiding principle must be qualified by the proviso: except where Parliament provides otherwise. Parliament has authorized concurrent copyright and trade-mark protection for labels.

Until it provides otherwise, the courts are bound to conclude that a logo on a chocolate bar wrapper can receive concurrent trade-mark and copyright protection.

(2) The Purposive Approach to the Copyright Act

Overview

14 In my view, this case turns on a straightforward application of s. 27(2)(e) of the *Copyright Act*. The Kraft companies allege that Euro-Excellence Inc. is liable for secondary infringement under s. 27(2)(e). However, Kraft Canada Inc. has failed to establish "hypothetical infringement", which is one of the three constitutive elements required to ground a claim under s. 27(2)(e). For Kraft Canada to succeed, it must show that Euro-Excellence imported works that *would have infringed copyright if they had been made in Canada by the persons who made them*. It fails to do so.

15 Under the Kraft companies' argument, the putative "hypothetical infringers" (the persons who *would have infringed* copyright if they made the impugned works in Canada) are the Kraft parent companies, Kraft Foods Belgium SA ("KFB") and Kraft Foods Schweiz AG ("KFS"). But KFB and KFS are also, respectively, the owners of the Côte d'Or and Toblerone copyrights at issue in this case. The copyright itself was not assigned to Kraft Canada. Therefore, to accept the Kraft companies' argument, this Court would have to find that copyright owners can infringe their own copyright if they have licensed copyright to an exclusive licensee despite their retention of the copyright. In my view, the *Copyright Act* does not permit exclusive licensees to sue the copyright owner-licensor for infringement of its own copyright. If KFS or KFB had reproduced Kraft labels in Canada in violation of its licensing agreement with Kraft Canada, Kraft Canada's only remedy would lie in breach of contract and *not in copyright infringement*. Because a copyright owner cannot be liable to its exclusive licensee for infringement, there is no hypothetical infringement and thus no violation of s. 27(2)(e) in this case by Euro-Excellence.

16 Bastarache J., at para. 75, suggests that on my reading of the Act, the Kraft companies could have circumvented the purposes of the Act by calling their agreements "assignments" rather than "exclusive licences". However, the distinction between assignments and exclusive licences is important and meaningful. By granting an assignment, the copyright owner intends to bestow upon the assignee the full panoply of rights and interests reserved for copyright owners. An exclusive licence, by contrast, permits owners to convey to licensees a more limited interest in the copyright. In my respectful view, an approach that conflates exclusive licences and assignments must be rejected. By enabling copyright owners to grant an interest in copyright either by assignment or exclusive licence, Parliament intended to provide copyright owners with two qualitatively different mechanisms by which to transfer their interests in whole or in part. Disregarding the distinctions between the two would lead to an unjustifiable narrowing of the owner's options in dealing with its interest.

Why there is no hypothetical infringement by KFS and KFB and therefore no secondary infringement by Euro-Excellence

17 Section 27 of the *Copyright Act* describes infringement under the Act. Section 27(1) describes what is known as "primary infringement". It provides that:

It is an infringement of copyright for any person to do, without the consent of the owner of the copyright, anything that by this Act only the owner of the copyright has the right to do.

Section 3 sets out the catalogue of rights that the copyright owner possesses under the Act. These rights include the sole right to produce and reproduce copies of the copyrighted work. For the purposes of this case, primary infringement would have arisen if Euro-Excellence had produced copies of the Toblerone or Côte d'Or logos.

18 But Euro-Excellence does not want to produce labels with the Toblerone or Côte d'Or logos, and the Kraft companies have not alleged that it has done so. The Kraft companies seek to enjoin Euro-Excellence from importing into Canada works that have been produced lawfully in Europe by the Kraft parent companies, KFS and KFB.

19 The Kraft companies thus allege that Euro-Excellence has engaged in "secondary infringement" by importing for sale or distribution copies of KFS and KFB's copyrighted works into Canada. Secondary infringement is dealt with under s. 27(2)

of the Act. In *CCH*, at para. 81, this Court held that three elements must be proven to establish secondary infringement: (1) a primary infringement; (2) the secondary infringer should have known that he or she was dealing with a product of infringement; and (3) the secondary infringer sold, distributed or exposed for sale the infringing goods. Perhaps the most straightforward form of secondary infringement arises when one sells a copy of an infringing work. Under s. 27(2)(a), "[i]t is an infringement of copyright for any person to ... sell ... a copy of a work ... that the person knows or should have known infringes copyright".

20 Section 27(2)(e) stands out as an apparent exception to the rule in *CCH* that secondary infringement first requires primary infringement because, unlike s. 27(2)(a) to (d), it does not require *actual* primary infringement. Instead, it requires only *hypothetical* primary infringement. Under s. 27(2)(e),

It is an infringement of copyright for any person to... import...a copy of a work...that the person knows...would infringe copyright if it had been made in Canada by the person who made it.

Section 27(2)(e) substitutes hypothetical primary infringement for actual primary infringement. It is possible that the infringing imports may have been lawfully made outside of Canada. Still, they are deemed to infringe copyright if the importer has imported into Canada works that *would have infringed* copyright if those works had been made in Canada by the persons who made the works abroad.

21 The apparent purpose of s. 27(2)(e) is to give Canadian copyright holders an added layer of protection where the Canadian copyright holder does not hold copyright in that work in foreign jurisdictions. Section 27(2)(e) protects Canadian copyright holders against "parallel importation" by deeming an infringement of copyright even where the imported works did not infringe copyright laws in the country in which they were made. Without s. 27(2)(e), the foreign copyright holder who could manufacture the work more cheaply abroad could flood the Canadian market with the work, thereby rendering the Canadian copyright worthless. Section 27(2)(e) thus represents Parliament's intention to ensure that Canadian copyright holders receive their just rewards even where they do not hold copyright abroad: see, e.g., *Dictionnaires Robert Canada SCC v. Librairie du Nomade Inc.* (1987), 11 F.T.R. 44 (Fed. T.D.); *A & M Records of Canada Ltd. v. Millbank Music Corp.* (1984), 1 C.P.R. (3d) 354 (Fed. T.D.) ; *Fly by Nite Music Co. v. Record Warehouse Ltd.*, [1975] F.C. 386 (Fed. T.D.) ; *Clarke, Irwin & Co. v. C. Cole & Co.* (1960), 33 C.P.R. 173 (Ont. H.C.).

22 On the facts of this case, the Kraft companies have not made out all of the constitutive elements of a claim under s. 27(2)(e). Hypothetical infringement has not been established. The Kraft companies cannot prove that the impugned works imported and distributed by Euro-Excellence *would have infringed copyright if they had been made in Canada by the persons who made them in Europe.*

23 The persons who made the impugned copies of the works in Europe were the Kraft parent companies, KFB and KFS. However, KFB and KFS would *not* have infringed copyright if they had produced the Côte d'Or and Toblerone logos in Canada.

24 This is because KFB and KFS are, respectively, the owners of the Canadian copyright in the Côte d'Or and Toblerone logos. On the Kraft companies' argument, KFB and KFS would be the hypothetical copyright infringers. The Kraft companies argue that KFB and KFS would have infringed copyright if they produced the copyrighted works in Canada because they had licensed the Toblerone and Côte d'Or copyrights to Kraft Canada. Accepting this argument would mean that KFB and KFS have infringed their own copyrights — a proposition that is inconsistent with copyright law and common sense. Under s. 27(1), infringement arises when a person, *without the consent of the owner*, does something that under the Act *only the owner has the right to do*. By definition, no person can simultaneously be owner and infringer of copyright: see also *CCH*, at para. 37.

25 The Kraft companies allege that KFB and KFS can, hypothetically, infringe copyright because they had licensed the exclusive rights to produce and reproduce the copyrighted works in Canada to Kraft Canada, their Canadian subsidiary. The Kraft companies thus assume that an exclusive licensee becomes the owner of the copyright and able to sue the licensor for infringement. This assumption is incorrect. Under the *Copyright Act*, exclusive licensees are not able to sue the owner-licensor for infringement. I arrive at this conclusion after considering the *Copyright Act's* provisions on copyright ownership and licensing.

Licensing Under the Copyright Act

26 This case turns on the nature and scope of an exclusive licensee's rights under the *Copyright Act*. An exclusive licence under copyright law exists when the following conditions are met: (a) the copyright owner (the licensor) permits another person (the licensee) to do something within the copyright; (b) the licensor promises not to give anyone else the same permission for the duration of the licence; and (c) the licensor itself promises not to do those acts that have been licensed to the licensee for the duration of the licence: *Copyright Act*, s. 2.7; see also D. Vaver, "The Exclusive Licence in Copyright" (1995), 9 *I.P.J.* 163, at pp. 164-65. The parties agree that the agreements between Kraft Canada and the Kraft parent companies are exclusive licence agreements.

27 Under the common law, a licensee does not enjoy property rights: "A licence is merely a permission to do that which would otherwise amount to trespass" (B. H. Ziff, *Principles of Property Law* (4th ed. 2006), at p. 270). In contrast, an assignee receives a property interest from the original owner and steps into the shoes of the owner with respect to those rights assigned. As the recipient of a property interest, the assignee enjoys a right against the world, including the right to sue others (including the assignor) in trespass. The licensee's rights, on the other hand, are contractual, and the licensee is empowered only to sue the owner for breach of contract; it cannot sue in trespass: Ziff, at p. 270; R. E. Megarry, *A Manual of the Law of Real Property* (8th ed. 2002), at p. 475; see also *Thomas v. Sorrell* (1673), *Vaugh. 330, 124 E.R. 1098* (Eng. C.P.), at p. 1109.

28 A contextual reading of the *Copyright Act* reveals that Parliament has preserved the traditional distinction between assignees and licensees with some modification. Under the present Act, there is a distinction between "assignee", "licensee" and "exclusive licensee". An assignee possesses full ownership rights in the copyright with respect to the rights assigned. A non-exclusive licensee has no property rights in the copyright, and enjoys only contractual rights *vis-à-vis* the owner-licensor. As a result, it cannot sue for infringement. An exclusive licensee, on the other hand, has a limited property interest in the copyright. For reasons explained below, this limited property interest enables the exclusive licensee to sue third parties for infringement but precludes the exclusive licensee from suing the owner-licensor for infringement.

29 Under the Act, the nature of the assignee's interest in the copyright is clear. Section 13(5) states expressly that assignees of copyright are, with the exception of moral rights, on equal footing with the original copyright owner:

Where, under any partial assignment of copyright, the assignee becomes entitled to any right comprised in copyright, the assignee, with respect to the rights so assigned, and the assignor, with respect to the rights not assigned, shall be treated for the purposes of this Act as the owner of the copyright, and this Act has effect accordingly.

The assignee of an interest in copyright is a copyright owner, and thus enjoys rights against the world, including the right to sue the assignor for infringement. This is because the assignor is no longer the owner of the copyright with respect to the right assigned. This is further reflected by the fact that, under s. 36(2), the assignee is not required to join the assignor as co-plaintiff in an action for copyright infringement. In light of these provisions, I have no difficulty in concluding that an assignee, as a holder of a full property interest in copyright, can sue the assignor for copyright infringement.

30 The status of copyright licensees is different. Parliament has manifested its intent to preserve a distinction between assignees and licensees. There is no provision analogous to s. 13(5) that purports to put licensees or exclusive licensees on equal footing with copyright owners.

31 The Act does however elevate "exclusive licensees" above mere licensees. Exclusive licensees are not licensees in the common law sense because exclusive licensees under the Act do have a limited proprietary interest in the copyright that has been licensed to them. The rights of exclusive licensees are set out in ss. 2.7, 13(4), 13(6) and 13(7) of the Act. These provisions do not state expressly whether or not an exclusive licensee can sue the licensor for infringement. However, by necessary implication, they enable exclusive licensees to sue third parties but not the owner-licensor for copyright infringement.

32 Section 2.7 defines "exclusive licence" as "an *authorization* to do any act that is subject to copyright to the exclusion of all others including the copyright owner". The deliberate choice of the term *authorization* is inconsistent with the granting of

property or ownership rights. In *CCH*, at para. 38, this Court agreed that "authorize" meant "sanction, approve and countenance". This is consistent with the common law definition of licence (i.e., permission to do something that would otherwise amount to an infringement).

33 Section 36(2) further suggests that an exclusive licensee does not possess a full property interest in the copyright. Section 36(1) enables exclusive licensees to sue for infringement, but s. 36(2) states that where "a person other than the copyright owner", namely the exclusive licensee, sues for infringement, "the copyright owner must be made a party to those proceedings ...". In the present case, KFB and KFS were joined as co-plaintiffs throughout the proceedings. The requirement of joining the licensor to an infringement action suggests that the exclusive licensee does not have a full property interest in the copyright. If the exclusive licensee held a full property interest, it should not need to join the owner in an action for infringement because a property interest — which is a right against the world — implies the right to sue for infringement in one's own name.

34 I recognize that other provisions of the Act suggest that exclusive licensees can acquire a property interest in the copyright. However, I am of the opinion that the property interest so acquired is limited and does not include an interest that defeats the ownership interest of the licensor or that could constitute the licensor an infringer of its own copyright.

35 Section 13(4) states:

The owner of the copyright in any work may assign the right, either wholly or partially, and either generally or subject to limitations relating to territory, medium or sector of the market or other limitations relating to the scope of the assignment, and either for the whole term of the copyright or for any other part thereof, and may grant any interest in the right by licence, but no assignment or grant is valid unless it is in writing signed by the owner of the right in respect of which the assignment or grant is made, or by the owner's duly authorized agent.

Section 13(7) was enacted in 1997 to clarify the meaning of s. 13(4) with respect to exclusive licensees. It states that

For greater certainty, it is deemed always to have been the law that a grant of an exclusive licence in a copyright constitutes the grant of an interest in the copyright by licence.

The use of the term "grant of an interest" in ss. 13(4) and 13(7) would seem to refer to the granting of a property right. This language stands out in comparison to s. 2.7, which suggests that an exclusive licence is not a "grant of an interest" but rather a non-proprietary "authorization" to do something that would otherwise amount to infringement.

36 The "grant of an interest" referred to in ss. 13(4) and 13(7) meant "grant of a *property interest*": *Robertson v. Thomson Corp.*, [2006] 2 S.C.R. 363, 2006 SCC 43 (S.C.C.). At para. 56 of that case, the majority of this Court adopted the following passage from *Ritchie v. Sawmill Creek Golf & Country Club Ltd.* (2004), 35 C.P.R. (4th) 163 (Ont. Div. Ct.), at para. 20:

The "grant of an interest" referred to in s. 13(4) is the transfer of a property right as opposed to a permission to do a certain thing. The former gives the licensee the capacity to sue in his own name for infringement, the latter provides only a defence to claims of infringement. To the extent there was any uncertainty as to the meaning of "grant of an interest" and whether this section applied to non-exclusive licences, the issue was resolved in 1997 when the *Copyright Act* was amended to include s. 13(7). ... [Emphasis added.]

According to this Court's decision in *Robertson*, the Act permits licensors to convey a *property interest* in the copyright to the exclusive licensee. However, neither *Robertson* nor the words of the Act delineate the precise scope of the exclusive licensee's property interest.

37 In my view, the exclusive licensee's property interest in the copyright is limited. An exclusive licence is not a complete assignment of copyright. The owner-licensor retains a residual ownership interest in the copyright. The owner-licensor's residual ownership interest precludes it from being liable for copyright infringement. An owner-licensor is liable to its exclusive licensee for breach of the licensing agreement but not for copyright infringement.

38 In para. 75, Bastarache J. suggests that I have read down the words of s. 2.7 in order to reach this conclusion. And the Kraft companies argued that the words "to the exclusion of all others including the copyright owner" means that the exclusive licensee has standing to sue the owner-licensor for infringement. I would respectfully disagree with both. Section 2.7 must be interpreted with an eye to the other provisions of the Act. Section 2.7 states:

For the purposes of this Act, an exclusive licence is an authorization to do any act that is subject to copyright to the exclusion of all others including the copyright owner, whether the authorization is granted by the owner or an exclusive licensee claiming under the owner.

39 An exclusive licence is an "authorization to do any act that is subject to copyright". Under s. 2 of the Act,

"copyright" means the rights described in

(a) section 3, in the case of a work,

.....

Section 3 includes, *inter alia*, the right to produce and reproduce a work.

40 Section 2.7 is a definitional section, which enshrines the common law definition of exclusive licence in the *Copyright Act*. Section 2.7 defines an exclusive licence as an authorization to do any act that is a right described in s. 3 to the exclusion of all others including the copyright owner (i.e., the right to produce and reproduce a work to the exclusion of all others including the copyright owner). But it says nothing about the consequences of violating that exclusive right. Those consequences and remedies for a violation of an exclusive licence are dealt with in other provisions of the Act, e.g. ss. 27(1) and 36(1). As discussed above, when the definitional and liability provisions are read in context, the necessary conclusion is that an exclusive licensee may sue third parties for infringement, but not the owner of the copyright who is liable only for breach of contract.

41 Comparing the treatment of exclusive licensees and assignees under the Act supports this conclusion. If the exclusive licensee could sue the owner-licensor for infringement, then the rights of exclusive licensees would be identical to those of assignees. However, Parliament has clearly manifested its intent to treat exclusive licensees differently from copyright owners and assignees. First, Parliament used express language in putting assignees on equal footing with copyright owners, but refrained from doing the same with exclusive licensees (s. 13(5)). Second, unlike assignees, the exclusive licensee lacks the capacity to sue for infringement alone; it must join the owner-licensor as a party (s. 36(2)). Third, the language of s. 2.7 defining "exclusive licence" as an "authorization" suggests an interest short of ownership. These are all reasons why the Canadian *Copyright Act* should be interpreted so that an exclusive licensee's property interest in a copyright is limited, such that the exclusive licensee does not have a right against the licensor-owner for infringement of the copyright owned by the licensor-owner.

42 The U.S. and the U.K. copyright regimes are helpful in elucidating the Canadian approach. Under U.S. copyright law, exclusive licensees have the right to sue the owner-licensor for infringement. U.K. copyright law, by contrast, does not permit exclusive licensees to sue the owner-licensor for infringement.

U.S. Copyright Law

43 Under U.S. copyright law, "the licensor may be liable to the exclusive licensee for copyright infringement, if the licensor exercises rights that have theretofore been exclusively licensed": M. B. Nimmer and D. Nimmer, *Nimmer on Copyright* (loose-leaf ed.), vol. 3, at pp. 12-58 and 12-59; *United States Naval Institute v. Charter Communications Inc.*, 936 F.2d 692 (U.S. C.A. 2nd Cir. 1991), at p. 695; *Architectronics Inc. v. Control Systems Inc.*, 935 F.Supp. 425 (U.S. Dist. Ct. S.D. N.Y. 1996), at p. 434.

44 However, there are some notable differences between the American and the Canadian statutes. Under the U.S. Act (17 U.S.C. § 101), a "transfer of copyright ownership" is defined as

an assignment, mortgage, exclusive license, or any other conveyance, alienation or hypothecation of a copyright or of any of the exclusive rights comprised in a copyright, whether or not it is limited in time or place of effect, but not including a nonexclusive license.

Unlike the Canadian Act, the U.S. statute appears to put exclusive licensees on equal footing with assignees. Under U.S. copyright law, there would be no functional difference between an "exclusive license" and an "assignment". The two terms had emerged from the 1909 Act, which had put assignees but not exclusive licensees on equal footing with copyright owners. That distinction has since been eliminated under the current Act: Nimmer, at pp. 10-1 to 10-22. Because exclusive licensees are equated with copyright owners, the exclusive licensee can sue for infringement as an owner, which means that it can sue even the owner-licensor for copyright infringement.

U.K. Copyright Law

45 Under the *Copyright, Designs and Patents Act 1988* (U.K.), 1988, c. 48, the exclusive licensee lacks the capacity to sue the copyright owner-licensor. Under s. 101(1) of the U.K. Act,

[a]n exclusive licensee has, except against the copyright owner, the same rights and remedies in respect of matters occurring after the grant of the licence as if the licence had been an assignment.

U.K. commentators have taken this provision to mean that "[t]he exclusive licensee may sue in his own name to restrain infringements occurring after the grant of the licence as if the licence had been an assignment", and that "[e]xcept as against the owner of the right he has the same rights and remedies for infringement of the right as if the licence had been an assignment": H. Laddie et al., *The Modern Law of Copyright and Designs* (3rd ed. 2000), vol. 1, at p. 905; see also L. Bently and B. Sherman, *Intellectual Property Law* (2nd ed. 2004), at pp. 254-55. Consequently, the exclusive licensee is able to sue third parties but not the owner-licensor for infringement: *R. Griggs Group Ltd. v. Evans (No.1)* (2003), [2004] F.S.R. 31, [2003] EWHC 2914 (Eng. Ch. Div.), at para. 58.

46 Although our Act is not explicit as is the U.K. Act in this regard, a contextual reading of the Canadian Act reveals that exclusive licensees lack the capacity to sue the owner-licensor for infringement. [Our Act shares a number of similarities with the U.K. Act, including common origins.](#) In Canada, *The Copyright Act, 1921*, S.C. 1921, c. 24, the precursor to the current Act, was based largely on the British *Copyright Act, 1911*, 1&2 Geo. 5, c. 46. Since the 1921 Act was enacted, there have been successive rounds of amendments, but our provisions on licensing and assignments are more similar to that of the U.K. than to the U.S.

47 Unlike the U.S. statute, which puts exclusive licensees on equal footing with assignees, the Canadian and U.K. Acts preserve the distinction between exclusive licensees and assignees. Whereas the U.S. statute permits transfers of copyright ownership by way of exclusive licence, the U.K. Act states that a transfer of ownership in copyright can occur only "by assignment, by testamentary disposition or by operation of law, as personal or moveable property" (s. 90(1)). Similarly, s. 13(5) of the Canadian Act states that only the assignee "shall be treated for the purposes of this Act as the owner of the copyright". On their face, the Canadian and U.K. statutes do not permit transfer of copyright ownership by exclusive licence.

48 Moreover, the Canadian and U.K. Acts define exclusive licence in similar terms. Section 92(1) of the U.K. Act states:

In this Part an "exclusive licence" means a licence in writing signed by or on behalf of the copyright owner authorising the licensee to the exclusion of all other persons, including the person granting the licence, to exercise a right which would otherwise be exercisable exclusively by the copyright owner.

This definition is almost identical to s. 2.7 of the Canadian Act. These similarities between the the Canadian and U.K. Acts suggest that our Parliament has created a copyright licensing regime similar to that of the U.K. If our Parliament had wanted exclusive licensees to be able to sue the owner-licensor for infringement, it would have put exclusive licensees on equal footing with assignees (as the U.S. Congress has done under its Act) or given exclusive licensees this right in the words of the legislation. The fact that our Parliament has retained a distinction between exclusive licensees and assignees suggests that

exclusive licensees under our Act have a limited property interest in the copyright that falls short of ownership. The procedural machinery of the Act enables the exclusive licensee to sue third parties for infringement. However, the owner-licensor is liable to the exclusive licensee only in contract.

(3) Application to this Case

49 To establish a claim under s. 27(2)(e) against Euro-Excellence, Kraft Canada must show that the makers of the impugned works — the Kraft parent companies - would have infringed copyright if they had made the Toblerone and Côte d'Or labels in Canada instead of Europe. Under the exclusive licence agreements, the Kraft parent companies are not permitted to produce or reproduce the copyrighted works in Canada. However, if, hypothetically, KFS were to produce a copy of a Toblerone logo in Canada, Kraft Canada's only remedy would lie in breach of contract. As owners of the Canadian copyright in the Toblerone and Côte d'Or logos, the Kraft parent companies cannot infringe their own copyright. Although Kraft Canada, as an exclusive licensee, has a property interest in the copyright that enables it to sue third parties for infringement, the Kraft parent companies retain a residual ownership interest in the copyright, which prevents Kraft Canada from suing them for infringement. Kraft Canada has thus failed to establish "hypothetical infringement", which is necessary to ground a claim against Euro-Excellence under s. 27(2)(e).

50 The Canadian *Copyright Act* does not extend protection against parallel importation to exclusive licensees. Section 27(2)(e) of the *Copyright Act*, read in context with the provisions discussed above, shows that an exclusive licensee cannot sue for secondary infringement where the licensor is the hypothetical infringer because the owner-licensor cannot infringe its own copyright and cannot be sued for copyright infringement. If Parliament decides that this result is problematic, it can amend the *Copyright Act*. In the meantime, this Court must apply the Act that Parliament has given us.

51 As there is no hypothetical primary infringement, Euro-Excellence cannot have engaged in secondary infringement. I would allow the appeal with costs in this Court and in the courts below.

Fish J.:

52 I agree with the reasons of Justice Rothstein and would dispose of the appeal as he suggests.

53 Had it been necessary to do so, I would have been inclined to determine whether the appellant is in any event entitled to succeed on its alternative ground relating to the integrity of Canadian law regarding intellectual property rights.

54 Kraft Foods Belgium SA and Kraft Foods Schweiz AG manufacture and sell chocolate packaged in Europe. The issue in this case is whether the *Copyright Act*, R.S.C. 1985, c. C-42, entitles them to prevent the sale in Canada of that very same chocolate, packaged exactly as it was when they sold it. Their claim that it does is based on agreements between commonly owned corporations — agreements that have more to do with a monopoly on the sale in Canada of those chocolates than with copyright protection of the "works" that appear on the package. In virtue of identical and simultaneous agreements, and for a nominal amount of \$1,000 in each instance, Kraft Belgium and Kraft Schweiz granted Kraft Canada exclusive licences to use those "works".

55 I think it worth noting that the trial judge, in upholding Kraft's claim, proceeded on the assumption that "*the sole purpose of [Kraft Belgium and Kraft Schweiz] registering copyright in Canada and then assigning rights to Kraft Canada Inc. was to mount the very attack upon [Euro-Excellence] which is currently before this Court*" (*Kraft Canada Inc. v. Euro Excellence Inc.*, [2004] 4 F.C.R. 410, 2004 FC 652 (F.C.), at para. 44 (emphasis added)). For the true purpose of the *Copyright Act*, see *Robertson v. Thomson Corp.*, [2006] 2 S.C.R. 363, 2006 SCC 43 (S.C.C.), at para. 69.

56 Without so deciding, I express grave doubt whether the law governing the protection of intellectual property rights in Canada can be transformed in this way into an instrument of trade control not contemplated by the *Copyright Act*.

Bastarache J.:

1. Introduction

57 Can a chocolate bar be copyrighted because of protected works appearing on its wrapper? In particular, can s. 27(2) of the *Copyright Act*, R.S.C. 1985, c. C-42, which prohibits parallel importation into Canada of copyrighted works, be used by the respondent Kraft Canada Inc. to prevent the appellant, Euro-Excellence Inc., from, in the words of s. 27(2), importing, for the purpose of selling, renting, distributing or trading, genuine Toblerone and Côte d'Or chocolate bars into Canada, without obscuring the logos of those chocolate bars, on the basis that the logos are copyrighted? I conclude that it cannot. Both s. 27(2) and the *Copyright Act* as a whole are about the protection of copyrighted works, not about the importation and sale of consumer goods in general. The merely incidental presence of the copyrighted works on the wrappers of the chocolate bars does not bring the chocolate bars within the protections offered by the *Copyright Act*. This appeal is allowed for the reasons set out below.

2. Facts

58 Kraft Foods Belgium SA ("KFB") and Kraft Foods Schweiz AG ("KFS") make Côte d'Or and Toblerone chocolate bars in, respectively, Belgium and Switzerland. Kraft Canada Inc. ("KCI") has distributed Toblerone bars in Canada as exclusive Canadian distributor since 1990. KCI was an authorized Canadian distributor of Côte d'Or bars before 1997, and in 2001 entered into an exclusive agreement to distribute the bars in Canada.

59 Euro-Excellence also imports both Toblerone and Côte d'Or bars into Canada and distributes those bars here. Beginning in 1993, Euro-Excellence was an authorized distributor of Côte d'Or bars, and for a period of approximately three years ending in 2000, Euro-Excellence was the exclusive Canadian distributor of Côte d'Or bars; that distribution contract was not renewed. Since 2000, Euro-Excellence has been importing genuine Côte d'Or bars as an unauthorized distributor. In 2001, Euro-Excellence began importing and distributing genuine Toblerone bars, also on an unauthorized basis.

60 Thus, from 2001 until the present litigation commenced, KCI was the exclusive licensed Canadian distributor of both Côte d'Or and Toblerone bars (that is, KCI had exclusive importation and distribution contracts with KFB and KFS, respectively). Notwithstanding these exclusivity agreements, Euro-Excellence continued to import and distribute both Côte d'Or and Toblerone bars which it had acquired legally in Europe. Euro-Excellence was successful enough in its distribution of the chocolate bars to give KCI cause to attempt to find a way to prevent Euro-Excellence from importing and distributing them.

61 It is not contested that KCI is the owner in Canada of the trade-marks "Côte d'Or" and "Toblerone." KCI does not rely in this dispute on its rights as trade-mark holder.

62 On October 25, 2002, KFB registered three Côte d'Or logos in Canada as copyrighted works in the artistic category. That same day, a licensing agreement between KFB and KCI was also registered, pursuant to which KCI purported to acquire

the sole and exclusive right and license in the Territory to produce, reproduce and adapt the Works or any substantial part thereof, in any material form whatever, and to use and publicly present the Works in association with the manufacture, distribution or sale in Canada of confectionary products, including, but not limited to, chocolate.

The agreement provided that KCI pay KFB \$1,000 per year for the licence.

63 Also on October 25, 2002, KFS registered two Toblerone logos in Canada as copyrighted works in the artistic category, and entered into a substantially similar licensing agreement with KCI. Again, KCI was to pay \$1,000 per year for the licence.

64 Armed with these new copyrights, KCI called upon Euro-Excellence to cease and desist distribution of any product to which the copyrighted works were affixed. When Euro-Excellence refused, KCI brought this action.

3. Judicial History

1. Federal Court, [2004] 4 F.C.R. 410 (F.C.), 2004 FC 652

65 In the Federal Court, Harrington J. described KCI's copyright action as an "interesting strategy in an effort to thwart Euro-Excellence's distribution of" the chocolate bars (para. 4). (I will henceforth refer to the Côte d'Or and Toblerone bars collectively as "the chocolate bars" since there are no substantial differences in the treatment of the bars for the purposes of these reasons.) Harrington J. first found that at least some of the logos were original artistic works which were properly subject to copyright (paras. 34 and 37). (For simplicity's sake I will refer only to those logos from this point on.) Having made this determination, he then turned to an analysis of s. 27(2) of the Act, and held that, consistent with the modern approach to statutory interpretation, s. 27(2) gave KCI a monopoly in the use of the copyrighted logos (para. 53).

66 In response to Euro-Excellence's argument that "copyright in a work cannot be used to prevent competitive distribution of goods, or at least in circumstances such as this where the copyright works are merely ancillary to the main product", the trial judge declined to interpret the Act in such a way as to limit KCI's rights (paras. 55-60). Harrington J. referred to the Australian case of *Bailey v. Boccaccio* (1986), 84 F.L.R. 232 (New South Wales S.C.), in which a claim similar to KCI's was allowed; he also noted that the Australian copyright legislation was thereafter amended to provide that copyright in a work is not infringed by importation of an article if the work is an accessory (such as a label or package) to the imported article. In light of the Australian history, Harrington J. found in favour of KCI:

Although, of course, not binding, I find the Bailey's Irish Cream case persuasive and come to the same conclusion under our Act. I am not prepared to simply use the *Copyright Act* as a touchstone for an imaginative frolic of my own. The language is clear, and the very purpose of the Act is to prevent unauthorized distribution of copyrighted works. [para. 60]

67 On the basis of this logic, Harrington J. awarded KCI damages in the amount of \$300,000 and an injunction restraining Euro-Excellence from selling, distributing, exposing or offering for sale any copies of the copyrighted logos. He did not enjoin Euro-Excellence from distributing the bars altogether. Instead, he held that the appropriate order was "that the product be rendered non-infringing" (para. 64).

68 Subsequent to his original order, Harrington J. refused a motion for reconsideration ((2004), 33 C.P.R. (4th) 242, 2004 FC 832 (F.C.),) and provided instructions on negotiations between KCI and Euro-Excellence regarding Euro-Excellence's attempts to conform to the terms of the injunction by covering the copyrighted material with opaque self-sticking plastic film ((2004), 35 C.P.R. (4th) 193, 2004 FC 1215 (F.C.)).

2. Federal Court of Appeal, (2005), [2006] 3 F.C.R. 91, 2005 FCA 427 (F.C.A.)

69 The Federal Court of Appeal refused to allow an appeal of the decision of Harrington J. Writing for Noël and Pelletier JJ.A., Justice Desjardins found that the only two issues which warranted consideration by the Court of Appeal were the interpretation of s. 27(2) of the *Copyright Act* and the appropriateness of the damages award.

70 Desjardins J.A. focussed her analysis on whether KCI's claim required proof that the copies of the works imported by Euro-Excellence would have infringed copyright had they been made in Canada. She noted that *CCH Canadian Ltd. v. Law Society of Upper Canada*, [2004] 1 S.C.R. 339, 2004 SCC 13 (S.C.C.), at para. 82, held that "[a]bsent primary infringement, there can be no secondary infringement", but distinguished it on the grounds that the wording of s. 27(2)(e) did not require proof of primary infringement abroad in order to ground a finding of secondary infringement by way of importation. In her view:

[S]ubsection 27(2) itself provides that secondary infringement occurs when any of the things referred to in paragraphs 27(2)(a) to (c) is done, when the production or reproduction of the work in question would be an infringement if the copy had been made in Canada by the person who made it. [para. 60]

Since KCI held the exclusive right of reproduction for Canada, even as against KFB and KFS, the mere fact that KFB and KFS were entitled to reproduce the protected works abroad did not excuse Euro-Excellence of liability for importing them. Desjardins J.A.'s reasons do not address the wording of paras. (a) to (c) of s. 27(2), or the question of whether Euro-Excellence's activities had violated the terms of those paragraphs in any detail.

71 Desjardins J.A. allowed the appeal in part and dismissed the cross-appeal. She referred the matter of damages back to the trial judge. Harrington J. heard further submissions and confirmed his original order that damages be awarded in the amount of \$300,000 (2006 FC 453 (F.C.)).

4. Analysis

1. The Issue

72 The issue that needs to be determined in this appeal is the proper interpretation of s. 27(2) of the *Copyright Act*. It provides as follows:

It is an infringement of copyright for any person to

- (a) sell or rent out,
- (b) distribute to such an extent as to affect prejudicially the owner of the copyright,
- (c) by way of trade distribute, expose or offer for sale or rental, or exhibit in public,
- (d) possess for the purpose of doing anything referred to in paragraphs (a) to (c), or
- (e) import into Canada for the purpose of doing anything referred to in paragraphs (a) to (c),

a copy of a work, sound recording or fixation of a performer's performance or of a communication signal that the person knows or should have known infringes copyright or would infringe copyright if it had been made in Canada by the person who made it.

73 As the wording of the provision makes clear, KCI's claim against Euro-Excellence, which is made under para. (e), stands or falls on the interpretation of paras. (a) to (c). Paragraph (e) is violated only if the defendant can be shown to have imported the copyrighted works for the purposes of doing one of the acts set out in paras. (a) to (c).

74 Given this structure, what is needed is an interpretation of s. 27(2)(a) to (c) of the Act. At para. 9 of this Court's decision in *CCH*, the Chief Justice set out the proper approach to interpreting the *Copyright Act*:

In interpreting the scope of the *Copyright Act's* rights and remedies, courts should apply the modern approach to statutory interpretation whereby "the words of an Act are to be read in their entire context and in their grammatical and ordinary sense harmoniously with the scheme of the Act, the object of the Act, and the intention of Parliament": *Bell ExpressVu Limited Partnership v. Rex*, [2002] 2 S.C.R. 559, 2002 SCC 42, at para. 26, citing E. A. Driedger, *Construction of Statutes* (2nd ed. 1983), at p. 87.

75 Thus, to properly interpret s. 27(2), we need to turn to an examination of the scheme and object of the *Copyright Act*. My colleague Rothstein J., at para. 4 of his reasons, would require a precise statutory provision to determine the scope of the protection afforded under s. 27(2). He believes that I am introducing a concept of legitimate interests to read down rights afforded by the *Copyright Act* (para. 7), that I am even introducing a new equitable doctrine (para. 8) or trying to substitute my policy preferences to those of Parliament (para. 3). I am simply applying our rules of statutory interpretation consistently to determine legislative intent and must, in doing so, give proper attention to the legislative context by looking at the provisions under scrutiny, the Act in general and the other legislative provisions that apply to related concepts. Rothstein J. does recognize in his own reasons that this legislation has to be interpreted in its proper legislative context and that it is not true that this Act is worded in such a way that no inferences have to be made. At paras. 34, 35, and 37 for instance, he finds that an exclusive licensee's property interest is limited, and restricts the application of ss. 13(6) and 36(1), ascribing a particular meaning and scope to the word "authorization" in s. 2.7, where the legislator clearly said that an exclusive licensee could do any act that is subject to copyright to the exclusion of all others "including the copyright owner". At para. 31, he speaks of limitations on

the rights of exclusive licensees that are found by "necessary implication". I think the purpose of s. 27(2) is determinative and that I need not deal with the licensing issue. I would however agree with Abella J. that the language of s. 2.7 is perfectly clear (para. 114), that a grant is a grant (para. 115), and that the grant in the present case is for an exclusive licence giving the "sole and exclusive right" to the copyright (para. 123). That right can be enforced under s. 36(1). It is obvious to me that Rothstein J. must therefore be wrong when he states at para. 22 that hypothetical infringement has not been made out. The Kraft parent companies in Europe could not have made a copy of the work in Canada without infringing the copyright. Furthermore, I see no legal justification for limiting the right of the licensee to a claim in contract (para. 27); this would be a clear contradiction of the terms of s. 36(1). Still I see no point in pursuing this course when the reasons of Rothstein J. clearly imply that the purpose of the Act could be circumvented by an assignment of the copyright rather than by the granting of a licence.

2. The Purpose of the Copyright Act

76 In *Galerie d'art du Petit Champlain inc. c. Théberge*, [2002] 2 S.C.R. 336, 2002 SCC 34 (S.C.C.), Binnie J. set out the dual objectives of the *Copyright Act*, at paras. 30-31:

The *Copyright Act* is usually presented as a balance between promoting the public interest in the encouragement and dissemination of works of the arts and intellect and obtaining a just reward for the creator...

The proper balance among these and other public policy objectives lies not only in recognizing the creator's rights but in giving due weight to their limited nature.

As the Chief Justice noted in *CCH*, at para. 10, applications of the *Copyright Act* should attempt "to maintain an appropriate balance between these two goals". It is also important to keep in mind Justice Binnie's holding in *Théberge* which limits copyright protection to the "legitimate economic interests" of the copyright holder (para. 38 (emphasis added)).

77 The *CCH* decision recognized the "limited nature" of the rights of a copyright holder in two important ways: in its definition of originality and in its treatment of fair dealing.

78 The *Copyright Act* protects original works only. In *CCH*, the Chief Justice held that, to be considered original in the sense required by the Act, a work must be the result of "an exercise of skill and judgment" (para. 16). This standard is consistent with the purpose of the Act, in that it provides a just reward for the labour of the creator; a "creativity" standard of originality was rejected insofar as it required novelty or uniqueness for copyright protection and failed to take account of the division between copyright and patent: *CCH*, at para. 24. However the skill and judgment standard does not provide a reward for *all* types of labour: the "sweat of the brow" standard of originality was rejected in *CCH* because it fails to take account of the "knowledge, developed aptitude or practised ability" and "capacity for discernment or ability to form an opinion or evaluation" which are the special hallmarks of the types of labour which produce the type of works protected by the *Copyright Act* (*CCH*, at paras. 16 and 24).

79 The *CCH* decision recognized the limited nature of the rights of a copyright holder in its treatment of fair dealing, which recognized that, unlike other exceptions, fair dealing is an essential part of copyright protection, and therefore that fair dealing is constitutive of the idea of the wrong in copyright law. Not every substantial reproduction of a copyrighted work counts as an infringement of copyright. This logic is clarified by Professor Abraham Drassinower in his article "Taking User Rights Seriously", in M. Geist, ed., *In the Public Interest: The Future of Canadian Copyright Law* (2005), 462. As Drassinower writes, at p. 470, "Fair dealing stands for the proposition that responding to another's work in one's own does not mean that one's work is any less one's own. Thus the defendant who makes out the fair dealing defence is an author in her own right." This is consistent with the understanding of copyright discussed above: sometimes a substantial reproduction of a copyrighted work will not be an infringement, because copyright protection is limited to protection of legitimate economic interests which are the result of an exercise of skill and judgment, and that protection must not be extended beyond its proper limits.

80 The *CCH* decision thus confirms that in order to protect the essential balance which lies at the heart of copyright law, care must be taken to ensure that copyright protection is not allowed to extend beyond the legitimate interests of a copyright holder. Copyright will not be granted to works which are not the result of an exercise of skill and judgment, which is the special kind of

labour for which copyright is the appropriate protection. Similarly, once copyright is granted in a given work, the protection that it provides must not be extended beyond its natural limits, and must take proper account of user rights such as the right to deal fairly with a copyrighted work. It is useful to note here that, while copyright protection results from an action of an individual — that is, the exercise of skill and judgment in creating an original work — that protection inheres in the work created, rather than its creator. In this manner, a copyrighted work is a form of property which may be transferred or licensed to others. But the rights transferred to a licensee must be limited in the same way as those of the original creator of the work to the legitimate economic interests resulting from the exercise of skill and judgment.

81 This Court's recent decision in *Society of Composers, Authors & Music Publishers of Canada v. Canadian Assn. of Internet Providers*, [2004] 2 S.C.R. 427, 2004 SCC 45 (S.C.C.), confirms this purposive interpretation of the Act. In that case, Binnie J. wrote, at para. 116: "Caching is dictated by the need to deliver faster and more economic service, and should not, when undertaken only for such technical reasons, attract copyright liability" (emphasis added). While "caching" is certainly an instance of substantial reproduction, it is a technical process only; as such it does not consist in an attempt to appropriate the legitimate economic interests of the copyright holder, and therefore does not constitute infringement.

82 The logic of this view of copyright has also been held to extend to other forms of intellectual property. In *Kirkbi AG v. Ritvik Holdings Inc. / Gestions Ritvik Inc.*, [2005] 3 S.C.R. 302, 2005 SCC 65 (S.C.C.), LeBel J., for the Court, noted, at para. 37, the importance of "basic and necessary distinctions between different forms of intellectual property and their legal and economic functions". He then went on to review the purposes of trade-marks and patents, noting that "[p]atent rights focus on the patented product or process", but that "[i]n the case of trade-marks, the focus shifts from the product itself to the distinctiveness of its marketing": see paras. 38 and 39. This focus on the fundamental natures and purposes of different sorts of intellectual property protections and the necessary divisions between them suggests that each form of protection relies on some core normative notion which must ground the economic interests claimed. Thus, a trade-mark, which protects distinctiveness of marketing and goodwill, cannot be leveraged to extend protection to products themselves, which is usually granted by patent.

83 The approach in *Kirkbi* is consistent with the principle of statutory interpretation which requires coherent interpretation of statutes *in pari materia*: see P.-A. Côté, *The Interpretation of Legislation In Canada* (3rd ed. 2000), at pp. 342 ff. According to this principle, the *Copyright Act* ought not only to be interpreted with an eye to the internal coherence of its own scheme; it must also not be interpreted in a fashion which is inconsistent with the *Trade-marks Act*, R.S.C. 1985, c. T-13. Trade-mark law protects market share in commercial goods; copyright protects the economic gains resulting from an exercise of skill and judgment. If trade-mark law does not protect market share in a particular situation, the law of copyright should not be used to provide that protection, if that requires contorting copyright outside its normal sphere of operation. The protection offered by copyright cannot be leveraged to include protection of economic interests that are only tangentially related to the copyrighted work. This Court's decision in *Astrazeneca Canada Inc. v. Canada (Minister of Health)*, [2006] 2 S.C.R. 560, 2006 SCC 49 (S.C.C.), which was based on a simultaneous interpretation of "two regulatory systems with sometimes conflicting objectives" (para. 12), is also consistent with the principle.

84 With this view of the purpose of the Act, which provides us with a principled fulcrum on which we may undertake copyright's balance, we may turn now to an examination of the purpose of s. 27(2) of the Act.

The Purpose of Section 27(2)(e) of the Copyright Act

85 The Act protects only the legitimate economic interests of copyright holders. It protects the economic benefits of skill and judgment; it does not protect all economic benefits of all types of labour. Section 27(2) of the Act is meant to prohibit secondary infringement resulting from the wrongful appropriation of the gains of another's skill and judgment by way of the acts enumerated in paras. (a) to (c). Conversely, other economic interests — although they may seem to be closely associated with the interests legitimately protected as emanating from that skill and judgment — are not protected. In particular, if a work of skill and judgment (such as a logo) is attached to some other consumer good (such as a chocolate bar), the economic gains associated with the sale of the consumer good must not be mistakenly viewed as the legitimate economic interests of the copyright holder of the logo that are protected by the law of copyright.

86 Thus s. 27(2)(e) is meant to protect copyright holders from the unauthorized importation of works which are the result of their skill and judgment. It is not meant to protect manufacturers from the unauthorized importation of consumer goods on the basis of their having a copyrighted work affixed to their wrapper, this work being merely incidental to their value as consumer goods.

87 I should note here that, contrary to what was argued before this Court at the hearing, s. 27(2) is not meant to protect manufacturers from the importation of counterfeit versions of their consumer goods. The laws of trade-mark and passing off provide protection to manufacturers who fear the importation of cheap imitations of their products with a copy of the logo of the real product affixed to them. Indeed, this protection is central to the purpose of trade-mark law, as identified by LeBel J. in *Kirkbi*, at para. 39: "Trade-marks seek to indicate the source of a particular product, process or service in a distinctive manner, so that, ideally, consumers know what they are buying and from whom." While it is certainly true that one work can be the subject of both copyright and trade-mark protection (see s. 64(3)(b) of the Act), it is equally certain that different forms of intellectual property protect different types of economic interests. To ignore this fact would be to ignore the "basic and necessary distinctions between different forms of intellectual property and their legal and economic functions", as noted by LeBel J. at para. 37 of *Kirkbi*.

88 This interpretation of s. 27(2) respects copyright's insistence that only *legitimate* economic interests receive copyright protection. To allow s. 27(2) to protect all interests of manufacturers and distributors of consumer goods would upset the copyright balance. Far from ensuring a "just reward" for creators of copyrighted works, it would allow a copyright to be leveraged far beyond the use intended by Parliament, allowing rights to be artificially enlarged into protection over consumer goods. This undue expansion of copyright would certainly be a failure to give heed to Binnie J.'s insistence, at para. 31 of *Théberge*, that the law give due weight to the limited nature of the rights of a copyright holder.

4. The Correct Interpretation of Paragraphs (a) to (c) of Section 27(2)

89 As mentioned above, para. (e) of s. 27(2) prohibits the importation into Canada of any copy of a work that would have infringed copyright had it been made in Canada by the person who made it, if that importation is for the purpose of doing anything referred to in paras. (a) to (c) of s. 27(2). Liability under para. (e) therefore relies on a finding that the defendant intended to commit an act enumerated in paras. (a) to (c), which prohibit the selling, renting out, distribution with a prejudicial effect, or dealing with by way of trade of copies of a work. How are we to interpret these prohibitions in light of the foregoing review of the purpose of s. 27(2)(e) and of the *Copyright Act* as a whole?

90 Paragraph (b) provides that "[i]t is an infringement of copyright for any person to distribute to such an extent as to affect prejudicially the owner of the copyright ... a copy of a work". Parliament's inclusion of the word "prejudicially" here is another important key to the interpretation of s. 27(2) as a whole. One can imagine many ways that the distribution of a copyrighted work could prejudicially affect the copyright holder which surely would not be considered secondary infringement. As a somewhat trivial example, consider a book containing accurate and damning portrayals of the author's family, written under a pseudonym unbeknownst to the family of the author. Distribution of copies of this book — bought in full compliance with the Act — to the author's family would certainly tend to "affect prejudicially" the owner of the copyright; nevertheless, I am sure that this situation is not intended to fall within s. 27(2)(b). This hypothetical situation suggests that to "affect prejudicially" a copyright holder has a more limited meaning: this phrase limits protection to the interests of the copyright holder *as author*. That is, only those distributions which affect the *legitimate* economic interests protected by copyright will be held to affect prejudicially the owner of the copyright. Economic consequences of unauthorized importation of consumer goods are not, generally speaking, the types of legitimate economic interests protected by the copyright in a work which is merely incidental to the sale or distribution of the consumer good to which it is attached. The effects of such importation do not meet the requirement of prejudice which is embedded in para. (b), which informs all of s. 27(2).

91 Paragraph (a) provides that "[i]t is an infringement of copyright for any person to sell or rent out" a copy of a work. Simply put, to sell a consumer good with a copyrighted work attached as a logo is not to sell that work. The work, *qua* work, is merely incidental to the consumer good, and thus a sale of the latter cannot be said in any real sense to be a sale of the former.

While it is true that a logo affixed to a package can play an essential role in the sale of that package, that is the role of the logo as a trade-mark, not as a copyright. A finding that s. 27(2)(a) is violated requires that the work be sold as something more than a mere incident of the sale of some other item.

92 Similar logic applies to para. (c). It provides that it is an infringement to, "by way of trade distribute, expose or offer for sale or rental, or exhibit in public" a copy of a work. It must be noted that the modifier "by way of trade" clearly applies to all of the actions referred to in para. (c). This can be seen more clearly by referring to the French version of the provision which refers to "*la mise en circulation, la mise ou l'offre en vente ou en location, ou l'exposition en public, dans un but commercial.*" When para. (c) is seen in this way, consistent with the purpose of the rest of s. 27(2) and the Act as a whole, it is clear that its protection is limited to those instances where the *work itself* is what is being distributed, exposed, offered for sale or exhibited in public. In other words, when the "trade" taking place, or the "*but commercial*" being sought, concerns the work itself; when the trade is a trade in some consumer good with which the work is only incidentally related, para. (c) is not triggered.

93 Each of paras. (a) to (c) must be interpreted in a manner consistent with the view that s. 27(2) is meant to protect authors from the unauthorized appropriation of the gains of their authorship; protection does not extend to include any and all economic gains claimed by an author or copyright owner. In each case, the wording of the provision, read in light of the purpose of s. 27(2) and the purpose of the *Copyright Act* as a whole, makes it clear that if the work in question is merely incidental to another consumer good, and it is that consumer good which is being sold or distributed, or dealt with by way of trade, s. 27(2) cannot be invoked. It is only when it is the work itself which is the subject of the sale or other commercial dealing that it can properly be said that the section applies and its protection becomes available.

94 The determination of when a work is merely incidental to a consumer good will not always be an easy one. Some factors which may be useful in making such a determination could include the nature of the product, the nature of the protected work and the relationship of the work to the product. If a reasonable consumer undertaking a commercial transaction does not think that the copyrighted work is what she is buying or dealing with, it is likely that the work is merely incidental to the consumer good.

95 Contrary to what Rothstein J. seems to argue at para. 4, the previous analysis does not suggest that the simple fact of a work being attached to a consumer good would preclude that work from copyright protection: the Act is clear that protection extends to, *inter alia*, works produced or reproduced "in any material form whatever" (s. 3(1)). The 'merely incidental' analysis goes to secondary liability under s. 27(2) only; rather than being about what is and is not copyrightable, its intention is to prevent that section from being improperly leveraged to use the *Copyright Act* as a protection of commercial interests completely unrelated to copyright's intended domain. Thus, the sale of a t-shirt with a reproduction of a painting on its front may constitute the sale of the work (the painting); on the other hand, the location of a small logo on the corner of a shirt pocket would not thereby transform an otherwise plain shirt into a copyrighted work, as the logo *qua* copyrighted work would be merely incidental to the shirt being sold (and, as noted above, any value the logo has as identifying a brand would be protected by trade-mark law, rather than by copyright). To take a slightly different example, a copyrighted instruction booklet included in the box of some consumer good would, as copyrighted work, be merely incidental to the good for the purposes of s. 27(2): see *British Leyland Motor Corp. v. Armstrong Patents Co.*, [1986] 1 All E.R. 850 (U.K. H.L.).

5. Other Considerations

96 In my view, this purposive interpretation of s. 27(2), which views the provision in light of the purpose and scheme of the *Copyright Act* as a whole, is sufficient to deal with the problem of parallel importation. This interpretation means that two other arguments, raised before us by the appellant, become unnecessary. However, I think it would be useful to mention those arguments briefly.

97 The appellant argued that an attempt to extend copyright protection to prevent parallel importation of consumer goods could trigger the application of the civilian doctrine of *abus de droit*. This doctrine, which was recognized by this Court in *Houle c. Banque Canadienne Nationale*, [1990] 3 S.C.R. 122 (S.C.C.), provides that a party may not exercise a right in an unreasonable manner. (See also *Wallace v. United Grain Growers Ltd.*, [1997] 3 S.C.R. 701 (S.C.C.), at para. 145, with respect to a similar concept in the common law.) Given the analysis above, I do not see an appeal to this doctrine as necessary to resolve this issue.

98 Similarly, the appellant argued that the newly developing American doctrine of "copyright misuse" applies to parallel importation of consumer goods. This doctrine is meant to act as a sort of equitable defence when "a copyright holder attempts to extend his copyright beyond the scope of the exclusive rights granted by Congress in a manner that violates federal antitrust law [or] the public policy embodied in copyright law": see K. Judge, "Rethinking Copyright Misuse" (2004), 57 *Stan. L. Rev.* 901, at pp. 903-4. The doctrine has been adopted by some Federal Circuit Courts of Appeal, but has not as of yet found favour at the United States Supreme Court (Judge, at pp. 902-3). As with the concept of *abus de droit*, my analysis renders an appeal to this developing doctrine unnecessary to deal with parallel importation of consumer goods. However, this is not to comment on the possible application of this doctrine in Canada; a determination on that issue is best left for another day.

5. Application to the Facts

99 It is clear on the facts of the appeal before us that the protected works in question — the Côte d'Or and Toblerone logos, considered as copyrighted works — cannot be seen as anything other than merely incidental to the chocolate bars to which they are affixed. Therefore, Euro-Excellence's dealings with the chocolate bars are not caught within the language of s. 27(2) of the Act. I reach this conclusion on the basis of a consideration of the role of the logos as merely incidental to the sale of the chocolate bars in general.

100 As discussed above, to be brought within the protection of s. 27(2), a copyrighted work must be more than merely incidental to the consumer good to which it is affixed. Only when that condition is satisfied can it accurately be said that it is the copyrighted work itself which is the subject of one of the activities described in paras. (a) to (c) of s. 27(2).

101 In this appeal, the logos, considered as copyrighted works, are inarguably best described as merely incidental to the chocolate bars themselves. It cannot be reasonably maintained that in the course of a commercial transaction in which a customer buys a Côte d'Or or a Toblerone chocolate bar from a merchant, the customer is actually paying for a copyrighted work. This is not a situation in which the copyrighted work, as such, is an important aspect of the consumer transaction: it is a logo on a wrapper for a product which serves to identify the product's origins, nothing more.

102 Thus it cannot be said that Euro-Excellence is selling the copyrighted works themselves, as proscribed by para. (a); it cannot be said that Euro-Excellence is distributing those works to the extent of prejudicing KCI's interest as author or copyright holder, as prohibited by para. (b), when those interests are properly limited to the legitimate economic interests protected by the Act; and it cannot be reasonably maintained that Euro-Excellence is in contravention of para. (c) by dealing with those works "by way of trade" once it is understood that it is the works themselves which must be dealt with by way of trade rather than the chocolate bars to which they are attached. Thus, as Euro-Excellence's importation of the Côte d'Or and Toblerone bars was not done "for the purpose of doing anything referred to in paragraphs (a) to (c)" of s. 27(2), Euro-Excellence has not violated s. 27(2)(e).

103 The above does not imply that the Côte d'Or or Toblerone logos are not copyrightable works. Quite the opposite: the logos have been properly registered and there is no reason to dispute the trial judge's conclusions that the logos meet the Act's originality threshold and are therefore copyrightable works. KCI, as holder of those copyrights in Canada, would surely succeed in an action for copyright infringement against a defendant who produced and distributed posters of the logos, for example. However, it is necessary to ensure that this legitimate copyright protection is not illegitimately leveraged into a protection for a market in consumer goods.

104 Similarly, I do not mean to suggest that logos play no role whatsoever in the sale of chocolate bars. So I think it is therefore useful to stress, once again, that in the s. 27(2) analysis the logos must be viewed strictly through the copyright lens *as works*. The analysis does not speak to the possibility — indeed, the certainty — that the logos, as trade-marks, can play a large role in the sale of the chocolate bars and are of great value to KCI. It is not disputed that part of the reason that a consumer buys a Côte d'Or bar or a Toblerone bar is because of the reputation and goodwill associated with each brand. But that is not a consideration which is relevant under the *Copyright Act*. It cannot be reasonably maintained that anyone buys a Côte d'Or or Toblerone because of the logos as works of art.

105 Côte d'Or and Toblerone are chocolate bars. When a consumer buys one of these bars, the bar is exactly what he or she is buying. The logo may play a role in that transaction *qua* trade-mark, but *qua* copyright it cannot be seen as anything other than a mere incident to the chocolate bars. Thus, Euro-Excellence did nothing for the purpose of selling the logos as copyrighted works, or dealing with those works by way of trade; nor did Euro-Excellence distribute the logos as works to the extent of prejudicially affecting the legitimate interests of KCI as copyright holder. In short, Euro-Excellence did not violate or intend to violate the terms of paras. (a) to (c) of s. 27(2), and therefore cannot be found liable under s. 27(2)(e).

6. Conclusion

106 For the above reasons, the appeal should be allowed with costs in all courts.

Abella J.:

107 The central issue in this appeal is whether an exclusive licensee of a copyright can claim remedies under the *Copyright Act*, R.S.C. 1985, c. C-42, when the copyrighted work is displayed on the label of a product imported in circumstances envisioned by s. 27(2) of the Act.

108 Like the trial judge and the Federal Court of Appeal, it is my view that Kraft Canada Inc. has the right to seek remedies under the Act to prevent Euro-Excellence from selling or distributing the copyrighted works. Section 27(2) of the *Copyright Act* states:

It is an infringement of copyright for any person to

- (a) sell or rent out,
- (b) distribute to such an extent as to affect prejudicially the owner of the copyright,
- (c) by way of trade distribute, expose or offer for sale or rental, or exhibit in public,
- (d) possess for the purpose of doing anything referred to in paragraphs (a) to (c), or
- (e) import into Canada for the purpose of doing anything referred to in paragraphs (a) to (c),

a copy of a work, sound recording or fixation of a performer's performance or of a communication signal that the person knows or should have known infringes copyright or would infringe copyright if it had been made in Canada by the person who made it.

109 Resolving this appeal depends on the answers to two questions. First, is the copyrighted work being "sold" or "distributed" when it is printed on the wrapper of a consumer product? Second, can an exclusive licensee in Canada claim protection against secondary infringement when the copyrighted work was produced by the owner-licensor?

110 On the first issue, I agree with the conclusion reached by Rothstein J. There is nothing in the Act to endorse a restrictive definition of "sell". Section 64(3)(b) of the Act extends copyright protection to trademarks and labels. When a product is sold, title to its wrapper is also transferred to the purchaser. The Act is indifferent as to whether the sale of the wrapper is important to the consumer.

111 Like Bastarache J., I agree with the trial judge that the logos are copyrighted works. I respectfully disagree with his view, however, that no infringement is made out because the elephant and bear logos are incidental to the chocolate bars and are therefore not protected by s. 27(2). To inject an exception for logos on the basis that they are "incidental" would be to introduce unnecessary uncertainty, inviting case-by-case judicial explorations into the uncharted area of what is "merely" incidental, "somewhat" incidental, or not incidental at all. Such an approach also takes insufficient account of the reality that many products are, to a significant extent, sold on the basis of their logo or packaging.

112 Nor do I share the view that s. 27(2)(e), which on its face appears to me to be applicable, "protects only the legitimate economic interests of copyright holders", that is, "the unauthorized importation of works which are the result of their skill and judgment" (paras. 85-86). It seems to me, with respect, that once a work falls within s. 27(2)(a) to (c) and otherwise meets the requirements established by the Act as prerequisites to copyright protection, there is no scope for a judicially created limit to that protection based on what might — or might not — be a "legitimate economic interest". I do not believe that *Galerie d'art du Petit Champlain inc. c. Théberge*, [2002] 2 S.C.R. 336, 2002 SCC 34 (S.C.C.), stands for such a proposition.

113 The answer to the second question depends on how one defines the rights of exclusive licensees. Copyright law in Canada, as Estey J. stated in *Compo Co. v. Blue Crest Music Inc.* (1979), [1980] 1 S.C.R. 357 (S.C.C.), at pp. 372-73, is:

[N]either tort law nor property law in classification, but is statutory law. It neither cuts across existing rights in property or conduct, nor falls between rights and obligations heretofore existing in the common law. Copyright legislation simply creates rights and obligations upon the terms and in the circumstances set out in the statute.

Copyright today remains an exclusively statutory creation: *Théberge; Bishop v. Stevens*, [1990] 2 S.C.R. 467 (S.C.C.); *CCH Canadian Ltd. v. Law Society of Upper Canada*, [2004] 1 S.C.R. 339, 2004 SCC 13 (S.C.C.).

114 In my view, the clear language of the Act is determinative. "Exclusive licence" is defined in s. 2.7:

... an authorization to do any act that is subject to copyright to the exclusion of all others including the copyright owner, whether the authorization is granted by the owner or an exclusive licensee claiming under the owner.

115 Clarification of the nature and quality of the rights enjoyed by an exclusive licensee is found in a combination of ss. 13(4), 13(6), 13(7) and 36(1) of the Act, which state:

13. ...

(4) The owner of the copyright in any work may assign the right, either wholly or partially, and either generally or subject to limitations relating to territory, medium or sector of the market or other limitations relating to the scope of the assignment, and either for the whole term of the copyright or for any other part thereof, and may grant any interest in the right by licence, but no assignment or grant is valid unless it is in writing signed by the owner of the right in respect of which the assignment or grant is made, or by the owner's duly authorized agent.

.....

(6) For greater certainty, it is deemed always to have been the law that a right of action for infringement of copyright may be assigned in association with the assignment of the copyright or the grant of an interest in the copyright by licence.

(7) For greater certainty, it is deemed always to have been the law that a grant of an exclusive licence in a copyright constitutes the grant of an interest in the copyright by licence.

.....

36. (1) Subject to this section, the owner of any copyright, or any person or persons *deriving any right*, title or interest by assignment or grant in writing from the owner, may individually for himself or herself, as a party to the proceedings in his or her own name, protect and enforce any right that he or she holds, and, to the extent of that right, title and interest, is entitled to the remedies provided by this Act.

116 Under s.13(4) and s.13(6), the owner of a copyright is free to divest itself of *any* interest in the copyright, in whole or in part, either by assignment *or* by licence: J.S. McKeown, *Fox on Canadian Law of Copyright and Industrial Designs* (4th ed. (loose- leaf)), at p. 19-24.

117 A copyright holder's ability to alienate its interest either through licensing or assignment is perfectly consistent with the statutory scheme. Vertical and horizontal divisibility is, arguably, a hallmark of copyright: see *Bouchet v. Kyriacopoulos* (1964), 45 C.P.R. 265 (Can. Ex. Ct.). And, as Binnie J. noted in *Théberge*, at para. 12, the economic objectives of copyright law are furthered through the transferability of either full or partial copyright interests.

118 Section 13(7) clarifies that an exclusive licence is the grant of a proprietary interest in the copyright itself: see *Robertson v. Thomson Corp.*, [2006] 2 S.C.R. 363, 2006 SCC 43 (S.C.C.), at para. 56. And s. 36(1) stipulates that any such grant of an interest in the copyright can be protected through the remedies provided in the Act.

119 The effect of s. 13(7) is to limit the distinction between the rights of assignees and exclusive licensees: McKeown, at p. 19-25; T. Scassa, "Using Copyright Law to Prevent Parallel Importation: A Comment on *Kraft Canada, Inc. v. Euro Excellence, Inc.*" (2006), 85 *Can. Bar. Rev.* 409, at p. 416; N. Tamaro, *The 2006 Annotated Copyright Act* (2006). The interest granted under s. 13(7) therefore includes a right, under s. 36(1), to protect that interest as against all others, including the owner-licensor, by availing itself of the remedies in the Act.

120 In other words, when the owner-licensor transfers an interest to the exclusive licensee, that licensee becomes, under the Act, the owner of a defined interest in the copyright: see *Éditions de la Table Ronde et Cousture* (C.S. Que.), and *Dynabec Ltée c. Société d'informatique R.D.G. Inc.* (1985), 6 C.P.R. (3d) 322 (C.A. Que.).

121 Where the owner of a copyright has granted an exclusive licence, therefore, it has, to the extent of the duration, territorial scope, and terms of that licence, temporarily granted that interest in the copyright to the exclusive licensee.

122 The scope of the precise interest granted is shaped by the terms of the licensing agreement: see *Fonds Gabrielle Roy c. Éditions internationales Alain Stanké ltée*, [1993] J.Q. No. 2525 (C.S. Que.); and *British Actors Film Co. v. Glover*, [1918] 1 K.B. 299 (Eng. K.B.), at p. 307. In this case, the agreement stated:

2.01 The Licensor grants to the Licensee the sole and exclusive right and licence in the Territory to produce, reproduce and adapt the Works or any substantial part thereof, in any material form whatever, and to use and publicly present the Works in association with the manufacture, distribution or sale in Canada of confectionery products, including, but not limited to, chocolate.

123 This is the grant of the "sole and exclusive right", in Canada, to "produce", "reproduce", "adapt", "use", "distribute" and "sell" the products. These terms, read together with the rights granted to an exclusive licensee in ss. 2.7 and 13(7), as well as the rights in s. 36(1) to protect and enforce its rights and interests through remedies provided by the Act, give the exclusive licensee the right to invoke the Act for copyright infringement not only against third parties, but, as s. 2.7 confirms, against the owner-licensor as well.

124 The trial judge, not unreasonably, treated this exclusive licence as an assignment: *Kraft Canada Inc. v. Euro Excellence Inc.*, [2004] 4 F.C.R. 410, 2004 FC 652 (F.C.), at para. 39. However, even as an exclusive licence, the proprietary interest clearly extends to the production and distribution of copyrighted works in Canada.

125 I accept that exclusive licences are distinct from assignments under the Act. This difference is recognized in s. 13(5) of the Act, dealing with partial assignments of copyright:

(5) Where, under any partial assignment of copyright, the assignee becomes entitled to any right comprised in copyright, the assignee, with respect to the rights so assigned, and the assignor, with respect to the rights not assigned, shall be treated for the purposes of this Act as the owner of the copyright, and this Act has effect accordingly.

This provision is interpretive in nature, clarifying that a partial assignee enjoys complete control over what was assigned to it, while the assignor retains ownership rights in what was not assigned.

126 As Rothstein J. notes, there is no analogous provision with respect to licensees. But, in my view, the absence of such a provision does not derogate from the rights the Act *does* unambiguously assign to exclusive licensees.

127 An exclusive licence which did not prevent others, including the owner-licensor, from performing the acts addressed in the licensing agreement, would no longer be exclusive. It would also render meaningless the statutory definition found in s. 2.7 of an exclusive licensee as the holder of rights "to the exclusion of all others *including the copyright owner*".

128 While an owner-licensor is, technically, still the owner of the copyright, it is nonetheless liable to an exclusive licensee if it breaches the copyright interest it has granted. Otherwise, the owner-licensor could continue to assert that despite having granted an exclusive interest in its copyright, it was free to compete with the exclusive licensee without fear of attack from the Act's remedial tentacles. The legislation, in my view, contradicts such immunity from the statute and, on the contrary, clearly entitles an exclusive licensee to sue for secondary infringement, even where the work was reproduced by the owner-licensor.

129 Copyright confers a limited monopoly to "produce or reproduce" the work in any material form whatever. In this case, KCI purchased the exclusive licence to the copyrighted work precisely because it wanted copyright on chocolate bar wrappers. Euro-Excellence purchased chocolate bars with labels displaying the copyrighted works; it imported those works into Canada after being notified of KCI's Canadian copyright interest; its purpose in importing the chocolate bars and the wrappers was to sell them or distribute them by way of trade. A s. 27(2)(e) infringement is therefore made out. KCI is entitled to the remedies provided by the Act.

130 I would dismiss the appeal and, as requested by KCI, return the matter to Harrington J. for a reassessment of damages.

Appeal allowed.

Pourvoi accueilli.

Appendix

Copyright Act, R.S.C. 1985, c. C-42

[Definitions]

2. ...

"copyright" means the rights described in

(a) section 3, in the case of a work,

.....

"infringing" means

(a) in relation to a work in which copyright subsists, any copy, including any colourable imitation, made or dealt with in contravention of this Act,

(b) in relation to a performer's performance in respect of which copyright subsists, any fixation or copy of a fixation of it made or dealt with in contravention of this Act,

(c) in relation to a sound recording in respect of which copyright subsists, any copy of it made or dealt with in contravention of this Act, or

(d) in relation to a communication signal in respect of which copyright subsists, any fixation or copy of a fixation of it made or dealt with in contravention of this Act.

The definition includes a copy that is imported in the circumstances set out in paragraph 27(2)(e) and section 27.1 but does not otherwise include a copy made with the consent of the owner of the copyright in the country where the copy was made;

.....

[Exclusive licence]

2.7. For the purposes of this Act, an exclusive licence is an authorization to do any act that is subject to copyright to the exclusion of all others including the copyright owner, whether the authorization is granted by the owner or an exclusive licensee claiming under the owner.

.....

[Copyright in works]

3. (1) For the purposes of this Act, "copyright", in relation to a work, means the sole right to produce or reproduce the work or any substantial part thereof in any material form whatever, to perform the work or any substantial part thereof in public or, if the work is unpublished, to publish the work or any substantial part thereof, and includes the sole right

(a) to produce, reproduce, perform or publish any translation of the work,

.....

and to authorize any such acts.

.....

[Assignments and licences]

13. ...

(4) The owner of the copyright in any work may assign the right, either wholly or partially, and either generally or subject to limitations relating to territory, medium or sector of the market or other limitations relating to the scope of the assignment, and either for the whole term of the copyright or for any other part thereof, and may grant any interest in the right by licence, but no assignment or grant is valid unless it is in writing signed by the owner of the right in respect of which the assignment or grant is made, or by the owner's duly authorized agent.

[Ownership in case of partial assignment]

(5) Where, under any partial assignment of copyright, the assignee becomes entitled to any right comprised in copyright, the assignee, with respect to the rights so assigned, and the assignor, with respect to the rights not assigned, shall be treated for the purposes of this Act as the owner of the copyright, and this Act has effect accordingly.

[Assignment of right of action]

(6) For greater certainty, it is deemed always to have been the law that a right of action for infringement of copyright may be assigned in association with the assignment of the copyright or the grant of an interest in the copyright by licence.

[Exclusive licence]

(7) For greater certainty, it is deemed always to have been the law that a grant of an exclusive licence in a copyright constitutes the grant of an interest in the copyright by licence.

.....

[Infringement generally]

27. (1) It is an infringement of copyright for any person to do, without the consent of the owner of the copyright, anything that by this Act only the owner of the copyright has the right to do.

[Secondary infringement]

(2) It is an infringement of copyright for any person to

- (a) sell or rent out,
- (b) distribute to such an extent as to affect prejudicially the owner of the copyright,
- (c) by way of trade distribute, expose or offer for sale or rental, or exhibit in public,
- (d) possess for the purpose of doing anything referred to in paragraphs (a) to (c), or
- (e) import into Canada for the purpose of doing anything referred to in paragraphs (a) to (c),

a copy of a work, sound recording or fixation of a performer's performance or of a communication signal that the person knows or should have known infringes copyright or would infringe copyright if it had been made in Canada by the person who made it.

.....

[Protection of separate rights]

36. (1) Subject to this section, the owner of any copyright, or any person or persons deriving any right, title or interest by assignment or grant in writing from the owner, may individually for himself or herself, as a party to the proceedings in his or her own name, protect and enforce any right that he or she holds, and, to the extent of that right, title and interest, is entitled to the remedies provided by this Act.

[Where copyright owner to be made party]

(2) Where proceedings referred to in subsection (1) are taken by a person other than the copyright owner, the copyright owner must be made a party to those proceedings, except

- (a) in respect of proceedings taken under section 44.1, 44.2 or 44.4;
- (b) in respect of interlocutory proceedings unless the court is of the opinion that the interests of justice require the copyright owner to be a party; and
- (c) in any other case, if the court is of the opinion that the interests of justice do not require the copyright owner to be a party.

.....

[Non-infringement of certain designs]

64. ...

(2) Where copyright subsists in a design applied to a useful article or in an artistic work from which the design is derived and, by or under the authority of any person who owns the copyright in Canada or who owns the copyright elsewhere,

- (a) the article is reproduced in a quantity of more than fifty, or

(b) where the article is a plate, engraving or cast, the article is used for producing more than fifty useful articles,

it shall not thereafter be an infringement of the copyright or the moral rights for anyone

(c) to reproduce the design of the article or a design not differing substantially from the design of the article by

(i) making the article, or

(ii) making a drawing or other reproduction in any material form of the article, or

(d) to do with an article, drawing or reproduction that is made as described in paragraph (c) anything that the owner of the copyright has the sole right to do with the design or artistic work in which the copyright subsists.

[Exception]

(3) Subsection (2) does not apply in respect of the copyright or the moral rights in an artistic work in so far as the work is used as or for

.....

(b) a trade-mark or a representation thereof or a label;

.....

Appeal allowed with costs, MCLACHLIN C.J. and ABELLA J. dissenting.

Tab 10

2008 CarswellNat 2590
Competition Tribunal

Nadeau Ferme Avicole Ltée / Nadeau Poultry Farm Ltd. v. Groupe Westco Inc.

2008 CarswellNat 2590, 48 B.L.R. (4th) 294

In the Matter of the Competition Act, R.S.C. 1985, c. C-34, as amended

In the Matter of an Application by Nadeau Ferme Avicole Limitée/Nadeau Poultry Farm Limited for an Order pursuant to section 103.1 granting leave to make an Application under section 75 of the Competition Act

In the Matter of an Application by Nadeau Ferme Avicole Limitée/Nadeau Poultry Farm Limited for an Interim Order pursuant to section 104 of the Competition Act

Nadeau Ferme Avicole Limitée/Nadeau Poultry Farm Limited, (applicant) and
Groupe Westco Inc. and Groupe Dynaco, Coopérative Agroalimentaire, and
Volailles Acadia S.E.C. and Volailles Acadia Inc./Acadia Poultry Inc., (respondents)

E.P. Blanchard J.

Judgment: May 12, 2008
Docket: CT-2008-003

Counsel: Leah Price, Andrea McCrae, for Applicant, Nadeau Ferme Avicole Limitée/Nadeau Poultry Farm Limited
Denis Gascon, Geoffrey Conrad, Éric C. Lefebvre, for Respondent, Groupe Westco Inc.
Paul Routhier, Paul Michaud, Louis Masson, for Respondents, Groupe Dynaco, Coopérative Agroalimentaire
Pierre Beaudoin, Valérie Belle-Isle, for Respondents, Volailles Acadia S.E.C., Volailles Acadia Inc./ Acadia Poultry Inc.

Subject: Criminal; Corporate and Commercial; Civil Practice and Procedure

Table of Authorities

Cases considered by E.P. Blanchard J.:

Barcode Systems Inc. v. Symbol Technologies Canada ULC (2004), (sub nom. *Symbol Technologies Canada ULC v. Barcode Systems Inc.*) 327 N.R. 296, 2004 CarswellNat 3582, 2004 FCA 339, 2004 CAF 339, 34 C.P.R. (4th) 481, 2004 CarswellNat 4789, [2005] 2 F.C.R. 254, 4 B.L.R. (4th) 58 (F.C.A.) — considered

Fédération des producteurs de volailles du Québec c. Pelland (2005), [2005] 1 S.C.R. 292, 332 N.R. 201, 2005 SCC 20, 2005 CarswellQue 1155, 2005 CarswellQue 1156, 251 D.L.R. (4th) 577 (S.C.C.) — referred to

National Capital News Canada v. Canada (Speaker of the House of Commons) (2002), 23 C.P.R. (4th) 77, (sub nom. *National Capital News Canada v. Milliken*) 2002 Comp. Trib. 41, 2002 CarswellNat 4487 (Competition Trib.) — followed

Robinson Motorcycle Ltd. v. Fred Deeley Imports Ltd. (2005), 2005 Comp. Trib. 40, 44 C.P.R. (4th) 146, 2005 CarswellNat 4665 (Competition Trib.) — referred to

Statutes considered:

Competition Act, R.S.C. 1985, c. C-34

s. 75 — referred to

s. 75(1) — considered

s. 75(1)(a) — considered

s. 75(1)(b) — considered

s. 75(1)(c) — considered

s. 75(1)(d) — considered

s. 75(1)(e) — considered

s. 103.1 [en. 2002, c. 16, s. 12] — pursuant to

s. 103.1(1) [en. 2002, c. 16, s. 12] — pursuant to

s. 103.1(6) [en. 2002, c. 16, s. 12] — pursuant to

s. 103.1(7) [en. 2002, c. 16, s. 12] — considered

s. 104 — referred to

Farm Products Agencies Act, R.S.C. 1985, c. F-4

Generally — referred to

Natural Products Act, S.N.B. 1999, c. N-1.2

Generally — referred to

APPLICATION under *Competition Act* for leave to bring application for orders directing respondents to continue to deal with applicant on usual terms.

E.P. Blanchard J.:**I. Introduction**

1 Nadeau Ferme Avicole Limitée/Nadeau Poultry Farm Limited (the Applicant) applies to the Competition Tribunal (the Tribunal), pursuant to section 103.1 of the *Competition Act*, R.S.C. 1985, c. C-34 as amended (the Act), for leave to bring an application under section 75 of the Act. If leave is granted it further seeks orders under subsection 75(1) and section 104 of the Act directing the Respondents to continue to deal with the Applicant and to supply it with live chickens on the usual trade terms, in the volumes previously supplied.

2 Pursuant to subsections 103.1(1) and (6) of the Act, the Tribunal has relied on the affidavit of Anthony Tavares, Chief Executive Officer of Maple Lodge (the Tavares Affidavit), and the written representations of the parties, including the Applicant's reply, in deciding this application for leave.

II. The Parties

3 The Applicant is a corporation incorporated under the laws of the Province of New Brunswick and is a wholly-owned subsidiary of Maple Lodge Holding Corporation (Maple Lodge), which is one of the largest processors of chicken in Canada. Maple Lodge employs about 2,300 people and operates two processing facilities in Canada; one in Norval, Ontario and one in

St-François de Madawaska, New Brunswick (the St-François Plant). The St-François Plant processes chickens for the Quebec and Maritime markets and is operated by the Applicant.

4 The Respondent, Groupe Westco Inc. (Westco) is a corporation incorporated under the laws of the Province of New Brunswick. Westco is highly integrated in the chicken industry. It owns or controls hatching egg production quota, farms, chicken production quota and chicken production farms. Its chicken production facilities are located in New Brunswick and elsewhere. A brochure published by Westco (Exhibit B to the Tavares Affidavit) indicates that it currently has, besides its chicken production facilities, hatcheries and transportation facilities. The brochure also refers to "Volailles Acadia" as a "coentreprise" that was acquired in 2006. The brochure states that Westco has 51% of New Brunswick's chicken production, and "Volailles Acadia" has 17%, for a total of 68%. The Applicant states that Westco supplies close to 33% of its live chickens.

5 The Respondent, Groupe Dynaco, Coopérative Agroalimentaire (Dynaco), is a cooperative registered in the Province of Quebec. Dynaco has interests in certain chicken production facilities in the Province of New Brunswick. Dynaco is highly integrated in a number of industries, including the chicken industry. The Applicant says that Dynaco supplies 4.6% of its live chickens. It offers a wide range of products and services to meet the needs of agricultural producers and consumers. In Westco's submissions it is conceded that it owns one of Dynaco's 734 shares.

6 The Respondent, Volailles Acadia S.E.C., created under the laws of the Province of Quebec, is registered as an extra-provincial limited partnership in the Province of New Brunswick, and the Respondent, Volailles Acadia Inc/Acadia Poultry Inc., incorporated under the laws of Canada, is registered as an extra-provincial corporation in the Province of New Brunswick (collectively Acadia). Acadia also supplies the Applicant with live chickens. The Applicant alleges that Acadia is jointly owned by Westco and Dynaco. In Westco's submissions it is conceded that it has a 25% interest in Volailles Acadia S.E.C.

III. The Relevant Facts

7 The production of chicken for the Canadian market is managed under a national supply management system that operates through co-ordinated federal-provincial regulatory schemes. Essentially the Chicken Farmers of Canada (CFC), an agency established under the *Farm Products Agencies Act*, R.S.C. 1985, c. F-4, among other things, establishes chicken production quotas federally and distributes quota to each member province. In New Brunswick, the Chicken Farmers of New Brunswick (CFNB), a provincial commodity board established by regulation under the *New Brunswick Natural Products Act*, S.N.B. 1999, c. N-1.2, regulates the intra-provincial production and marketing of chicken in New Brunswick. The quotas allotted to New Brunswick by the CFC are, in turn, allotted to the various producers in New Brunswick by the CFNB.

8 The supply management system applies only to impose live chicken production quotas on producers. There is nothing to require a producer to direct its live chicken supply to any particular processor within or outside New Brunswick. Nor does there appear to be any express restriction on producers becoming involved in chicken processing.

9 Historically, the Applicant has obtained 100% of its live chickens from New Brunswick producers, of which almost 75% has come from quota now owned by the Respondents. At the time of this application, live chickens were also being supplied to the Applicant from Nova Scotia and Prince Edward Island. A number of chicken producers in New Brunswick have consolidated their quotas into three main producer groups, namely the Respondents, which together produce almost 75% of New Brunswick's live chickens. The undisputed evidence is that while the quotas remain in the names of the original producers, the ownership or control of the production has been transferred to the Respondents. At the time of this application the Respondents are supplying about 48% of the Applicant's chickens.

10 Olymel, a Quebec based processor and the Applicant's primary competitor in Quebec and the Eastern provinces, in consort with Westco wanted to buy the St-François Plant. On August 19, 2007, Olymel and Westco, (the Consortium) informed the Applicant that if it was not prepared to sell at a price acceptable to the Consortium, then all of the chicken produced by Westco and Dynaco would temporarily be diverted to Olymel's processing facility in Quebec while the Consortium built its own plant in New Brunswick. Westco had let it be known that it had always been its intention to integrate processing into its business plan.

11 Negotiations for the purchase of the St-François Plant between the Applicant and the Consortium failed. As a result, on January 21, 2008, Westco notified the Applicant that it would cease supplying live chickens to the Applicant effective My 20, 2008, by reason of its decision to have its live chickens processed at the Consortium's new New Brunswick plant.

12 On January 24, 2008, Dynaco advised the Applicant that it would also cease to supply the Applicant with live chickens because the Applicant had sullied its name by referring to Dynaco in correspondence with the New Brunswick Minister of Agriculture. On February 6, 2008, notwithstanding an apology by the Applicant for the mistaken reference to Dynaco in the letter to the Minister, Dynaco confirmed that its supply to the Applicant would terminate in the middle of September, 2008.

13 By letter dated February 28, 2008, Acadia gave formal notice that it would cease supplying live chickens to the Applicant, effective September 15, 2008.

14 The Applicant contends that the refusal to deal by the Respondents collectively will reduce by 75% the supply of live chickens from New Brunswick to the Applicant. This translates, on average, to approximately 48% of the 565,800 chickens (i.e. 271,350) processed weekly at the plant. The Applicant's evidence is that it requires a guarantee of 350,000 live chickens per week to stay viable and that the absolute minimum supply required to simply "get by" is 300,000 live chickens per week.

15 The Applicant's evidence is that losing Westco's 186,230 chickens alone would cause revenue loss of over \$830,000 per week, and loss of profit of more than \$139,000 per week. Because of the high level of fixed costs at the St-François Plant, loss of the Westco chickens alone would reduce profits by about 50% on an annual basis.

16 The Applicant contends that if the Respondents cut off the Applicant's supply, the St-Francois Plant will only be able to run at 40% of capacity. Processing would be reduced to just over $\frac{3}{4}$ of one shift and a majority of the 340 jobs would be lost immediately. According to the Applicant, the viability of the whole plant would be severely compromised.

17 The Applicant argues that the refusal of each of Westco, Dynaco and Acadia, separately, would substantially affect its business. Together, they might destroy the business completely.

IV. Analysis

18 Subsection 103.1(7) of the Act sets out the test for leave on an application under section 75 of the Act. It reads:

103.1(7) The Tribunal may grant leave to make an application under section 75 or 77 if it has reason to believe that the applicant is directly and substantially affected in the applicants' business by any practice referred to in one of those sections that could be subject to an order under that section.

103.1(7) Le Tribunal peut faire droit à une demande de permission de présenter une demande en vertu des articles 75 ou 77 s'il a des raisons de croire que l'auteur de la demande est directement et sensiblement gêné dans son entreprise en raison de l'existence de l'une ou l'autre des pratiques qui pourraient faire l'objet d'une ordonnance en vertu de ces articles.

19 The test to be followed on an application for leave was first applied by Madam Justice Dawson in *National Capital News Canada v. Canada (Speaker of the House of Commons)*, 2002 Comp. Trib. 41 (Competition Trib.), par. 14. The test as articulated by Madam Justice Dawson was subsequently adopted by the Federal Court of Appeal in *Barcode Systems Inc. v. Symbol Technologies Canada ULC*, 2004 FCA 339 (F.C.A.). Pursuant to this test, the Tribunal must determine whether the leave application is supported by sufficient credible evidence to give rise to a *bona fide* belief that the applicant may have been directly and substantially affected in the applicant's business by a reviewable practice and that the practice in question could be subject to an order.

20 In considering a leave application, all the elements of the reviewable trade practice of refusal to deal set out in subsection 75 (1) of the Act must be addressed. See *Barcode*, above, at paragraph 18.

21 Subsection 75(1) of the Act provides as follows:

75.(1) Where, on application by the Commissioner or a person granted leave under section 103.1, the Tribunal finds that

- (a) a person is substantially affected in his business or is precluded from carrying on business due to his inability to obtain adequate supplies of a product anywhere in a market on usual trade terms,
- (b) the person referred to in paragraph (a) is unable to obtain adequate supplies of the product because of insufficient competition among suppliers of the product in the market,
- (c) the person referred to in paragraph (a) is willing and able to meet the usual trade terms of the supplier or suppliers of the product,
- (d) the product is in ample supply, and
- (e) the refusal to deal is having or is likely to have an adverse effect on competition in a market,

the Tribunal may order that one or more suppliers of the product in the market accept the person as a customer within a specified time on usual trade terms unless, within the specified time, in the case of an article, any customs duties on the article are removed, reduced or remitted and the effect of the removal, reduction or remission is to place the person on an equal footing with other persons who are able to obtain adequate supplies of the article in Canada.

75.(1) Lorsque, à la demande du commissaire ou d'une personne autorisée en vertu de l'article 103.1, le Tribunal conclut:

- a) qu'une personne est sensiblement gênée dans son entreprise ou ne peut exploiter une entreprise du fait qu'elle est incapable de se procurer un produit de façon suffisante, où que ce soit sur un marché, aux conditions de commerce normales;
- b) que la personne mentionnée à l'alinéa a) est incapable de se procurer le produit de façon suffisante en raison de l'insuffisance de la concurrence entre les fournisseurs de ce produit sur ce marché;
- c) que la personne mentionnée à l'alinéa a) accepte et est en mesure de respecter les conditions de commerce normales imposées par le ou les fournisseurs de ce produit;
- d) que le produit est disponible en quantité amplement suffisante;
- e) que le refus de vendre a ou aura vraisemblablement pour effet de nuire à la concurrence dans un marché,

le Tribunal peut ordonner qu'un ou plusieurs fournisseurs de ce produit sur le marché en question acceptent cette personne comme client dans un délai déterminé aux conditions de commerce normales à moins que, au cours de ce délai, dans le cas d'un article, les droits de douane qui lui sont applicables ne soient supprimés, réduits ou remis de façon à mettre cette personne sur un pied d'égalité avec d'autres personnes qui sont capables de se procurer l'article en quantité suffisante au Canada.

22 I will now turn to the first part of the test: whether the evidence before the Tribunal is sufficient to satisfy it that there is reason to believe that the Applicant is directly and substantially affected in its business by a practice referred to in section 75.

23 The Applicant's affiant attests that the St-François Plant is the Applicant's only business and that the Respondents' refusals will have a substantial and direct impact on that business. The evidence indicates that the Respondents' refusals will collectively lead to a loss of approximately 48% of its current supply of live chickens reducing the Applicant's operations to approximately 40% of capacity. While the Respondents Dynaco and Acadia submit that their respective refusals cannot substantially affect the Applicant's business because of their small numbers, I am satisfied that there is evidence of ties between the Respondents which leads me to consider, for the purpose of this leave application, the collective impact of refusals by all Respondents.

24 The Tribunal has not accepted the Respondents' submissions that the business to be examined is that of Maple Lodge. Rather, when considering an application for leave under section 103.1 of the Act, the Tribunal must examine the "applicant's business". The Applicant is not Maple Lodge.

25 The uncontested evidence before the Tribunal indicates that the Respondents will cut off supply shortly. In my view, one should not have to wait until harm actually occurs before bringing an application under subsection 103.1(1) of the Act (see also *Robinson Motorcycle Ltd. v. Fred Deeley Imports Ltd.*, 2005 Comp. Trib. 40 (Competition Trib.), where leave was granted before supply was scheduled to cease).

26 I am therefore satisfied that the Tribunal has reason to believe that the Applicant is directly and substantially affected in its business by the Respondents' refusals.

27 I will now turn to the second part of the test, the factors in subsection 75(1) of the Act.

28 As I explained above, the Applicant's affiant attests that the Respondents' refusals will have a substantial and direct impact on the Applicant's business. The parties appear to agree at this stage that the "product" at issue for the purposes of paragraph 75(1)(a) is live chickens.

29 The Respondents contend in their written submissions that the Applicant adduced no evidence to establish the geographic market or show what efforts were made by the Applicant to secure alternate supplies.

30 However, the Applicant's affiant attests that "Nadeau cannot obtain replacement supplies of live chicken from within or outside New Brunswick..." and that "Because the supply management system creates monopoly production rights for producers and all production is already allocated to other processing plants, Nadeau would be unable to replace the lost volumes from other sources."

31 Given the uncontested evidence that all the Respondents are about to cut off supply to the Applicant, I am satisfied that the Tribunal could conclude that the Applicant's business is substantially affected due to its inability to obtain adequate supplies of live chickens.

32 With respect to paragraph 75(1)(b) of the Act, the evidence shows that 74.18% of the chicken quota in New Brunswick is in the hands of the three Respondents. The production of chicken for the Canadian market is managed under a national supply management system. However, that system leaves producers free to sell to the processors of their choice at negotiated prices above a regulated minimum. It is noteworthy that Westco concedes in its submissions that there is "vigorous" competition in the production of live chickens.

33 In these circumstances and considering the fact that 75% of the New Brunswick supply is controlled by the Respondents, the Tribunal could conclude that the Applicant is unable to obtain adequate supplies of live chickens because of insufficient competition among suppliers.

34 With respect to paragraph 75(1)(c), the Respondents do not appear to challenge the evidence that the Applicant is willing and able to meet the Respondents' usual trade terms. In any event, I am satisfied that the Tribunal could conclude that the Applicant is willing and able to meet the usual trade terms of the suppliers.

35 Paragraph 75(1)(d) requires that the product be in ample supply. The evidence indicates that the Respondents' ability to supply the Applicant has never been a problem. The Supreme Court of Canada has recognized that "[t]he quota system is an attempt to maintain an equilibrium between supply and demand and attenuate the inherent instability of the markets" (see *Fédération des producteurs de volailles du Québec c. Pelland*, [2005] 1 S.C.R. 292, 2005 SCC 20 (S.C.C.), at par. 38). I am satisfied in the circumstances that the Tribunal could conclude that live chickens are in "ample supply".

36 The market at issue for the purposes of paragraph 75(1)(e) is the market in which the Applicant participates, involving the sale of processed chickens. The Applicant's affiant attests that the refusals could lead to the closure of the Applicant's

processing plant, thereby eliminating a major competitor in the market place. He explains that the closure of the St-François Plant "...would result in a significant reduction of competition in the chicken market in Quebec and the Maritime provinces." In the circumstances, I am satisfied that the Tribunal could conclude that the refusals are likely to have an adverse effect on competition in a market.

37 For these reasons, I conclude that the Tribunal "could" make an order requiring the Respondents to supply the Applicant.

38 The Tribunal has therefore reason to believe that the Applicant is directly and substantially affected in the Applicant's business by a practice referred to in section 75 that could be subject to an order under that section. Accordingly, leave is granted.

FOR THESE REASONS THE TRIBUNAL ORDERS THAT:

39 The Application for leave to apply under section 75 of the Act is granted.

Application for leave granted.

Tab 11

2015 FC 19, 2015 CF 19
Federal Court

Red Label Vacations Inc. v. 411 Travel Buys Ltd.

2015 CarswellNat 427, 2015 CarswellNat 4554, 2015 FC 19, 2015 CF 19, 131 C.P.R. (4th) 6, 250 A.C.W.S. (3d) 677

**Red Label Vacations Inc., Carrying on Business as Redtag.ca or Redtag.ca
Vacations or Both, Plaintiff and 411 Travel Buys Limited Carrying on
Business as 411travelbuys.ca, Carlos Manuel Lourenco, Defendants**

Michael D. Manson J.

Heard: November 24, 2014

Judgment: January 7, 2015

Docket: T-1399-09

Counsel: Mr. David Alderson, Mr. Nick Poon, for Plaintiff
Mr. Evan Tingley, for Defendants

Subject: Corporate and Commercial; Evidence; Intellectual Property; Property

Table of Authorities

Cases considered by Michael D. Manson J.:

CCH Canadian Ltd. v. Law Society of Upper Canada (2004), 236 D.L.R. (4th) 395, 317 N.R. 107, 30 C.P.R. (4th) 1, 2004 CSC 13, 2004 CarswellNat 446, 2004 CarswellNat 447, 2004 SCC 13, [2004] 1 S.C.R. 339, 247 F.T.R. 318 (note), [2004] 3 F.C.R. 241 at 244 (S.C.C.) — considered

Ciba-Geigy Canada Ltd. v. Apotex Inc. (1992), 95 D.L.R. (4th) 385, 58 O.A.C. 321, [1992] 3 S.C.R. 120, 143 N.R. 241, 44 C.P.R. (3d) 289, 1992 CarswellOnt 1007, 1992 CarswellOnt 1007F (S.C.C.) — considered

Delrina Corp. v. Triolet Systems Inc. (1998), 17 C.P.R. (4th) 322, 1998 CarswellOnt 2955, 69 O.T.C. 1 (Ont. Gen. Div.) — considered

Delrina Corp. v. Triolet Systems Inc. (2002), 58 O.R. (3d) 339, 23 B.L.R. (3d) 231, 17 C.P.R. (4th) 289, 2002 CarswellOnt 633, 156 O.A.C. 166, [2002] O.T.C. 413 (Ont. C.A.) — referred to

Distrimed Inc. v. Dispill Inc. (2013), 2013 FC 1043, 2013 CarswellNat 3663, 2013 CarswellNat 5722, 2013 CF 1043, 119 C.P.R. (4th) 1, 440 F.T.R. 209 (Eng.) (F.C.) — considered

Insurance Corp. of British Columbia v. Stainton Ventures Ltd. (2012), 2012 BCSC 608, 2012 CarswellBC 1163 (B.C. S.C.) — considered

Jennings v. Rice (2002), [2002] EWCA Civ 159, [2003] 1 F.C.R. 501, [2003] 1 P & CR 8, [2002] W.T.L.R. 367, [2003] 1 P & CR 100 (Eng. C.A.) — considered

Netbored Inc. v. Avery Holdings Inc. (2005), 48 C.P.R. (4th) 241, 2005 CarswellNat 3289, 2005 FC 1405, 2005 CF 1405, 2005 CarswellNat 7462 (F.C.) — considered

Pandi v. FieldOfWebs.com (2007), 2007 CarswellOnt 4389 (Ont. S.C.J.) — considered

Robinson c. Films Cinar inc. (2013), 8 C.C.L.T. (4th) 1, 2013 CarswellQue 12345, 2013 CarswellQue 12346, 2013 SCC 73, 366 D.L.R. (4th) 193, (sub nom. *Cinar Corp. v. Robinson*) 452 N.R. 123, (sub nom. *Cinar Corp. v. Robinson*) [2013] 3 S.C.R. 1168, 118 C.P.R. (4th) 1, (sub nom. *Cinar Corp. v. Robinson*) 297 C.R.R. (2d) 299 (S.C.C.) — referred to

Tele-Direct (Publications) Inc. v. American Business Information Inc. (1997), [1998] 2 F.C. 22, 37 B.L.R. (2d) 101, 1997 CarswellNat 2752, 221 N.R. 113, 154 D.L.R. (4th) 328, 76 C.P.R. (3d) 296, 134 F.T.R. 80 (note), 1997 CarswellNat 2111 (Fed. C.A.) — considered

Tommy Hilfiger Licensing Inc. v. Produits de Qualité I.M.D. Inc. (2005), (sub nom. *Tommy Hilfiger Licensing Inc. v. Quality Goods I.M.D. Inc.*) 267 F.T.R. 259 (Eng.), 2005 CF 10, 2005 CarswellNat 2890, 2005 CarswellNat 84, 2005 FC 10, 37 C.P.R. (4th) 1 (F.C.) — followed

Veuve Clicquot Ponsardin c. Boutiques Cliquot Ltée (2006), 2006 CarswellNat 1402, 2006 CarswellNat 1403, 49 C.P.R. (4th) 401, (sub nom. *Veuve Clicquot Ponsardin v. Boutiques Cliquot ltée*) 349 N.R. 111, 2006 SCC 23, [2006] 1 S.C.R. 824, (sub nom. *Veuve Clicquot Ponsardin Maison Fondée en 1772 v. Boutiques Cliquot Ltée*) 270 D.L.R. (4th) 1 (S.C.C.) — considered

Statutes considered:

Copyright Act, R.S.C. 1985, c. C-42

Generally — referred to

s. 3(1) — considered

s. 27 — referred to

s. 27(1) — considered

Trade-marks Act, R.S.C. 1985, c. T-13

Generally — referred to

s. 4(2) — considered

s. 7(b) — considered

s. 7(c) — considered

s. 20 — considered

s. 22 — considered

Rules considered:

Federal Court Rules, 1998, SOR/98-106

Tariff B, Table, column III — referred to

Authorities considered:

Gill, A. Kelly, *Fox on Canadian Law of Trademarks and Unfair Competition*, 4th ed. (Toronto, Ont.: Carswell, 2002) (loose-leaf)

Words and phrases considered:**cascading style sheet**

. . . a style sheet language used for describing the look and formatting of a document that facilitates manipulation of a website's design . . .

initial interest confusion

Some United States Courts have held [that use of a plaintiff's trade name and possibly confusing words] can cause "initial interest confusion", where confusion is caused in the customer before actually purchasing a good or service, when the customer seeks a particular brand of goods or services, but is drawn or enticed to a competitor's goods or services through the competitor's use of the first company's trade name or trademark.

metatag

A metatag is a word or small phrase that's embedded in the source code of a website. It is not visible on the actual page itself. When a person types a phrase into the search bar of a search engine, such as Google, it uses an algorithm to search through the internet looking for web pages with those particular words in them. The greater the number of times a term appears in metatags and in the text of the webpage itself, the greater the chance that a search engine will choose that website to be listed higher on the list of search results (page 1 of the results list as opposed to page 6, for example).

search engine optimization

Search Engine Optimization is an important step in marketing a company's wares or services.

ACTION for copyright and trade-mark infringement and passing off; COUNTERCLAIM for passing off.

Michael D. Manson J.:

I. Facts

- 1 Red Label is a travel business that offers online travel information services and bookings through its website redtag.ca, catering mostly to the Canadian market. It was incorporated in 2004, and is owned and operated by Vincenzo Demarinis.
- 2 Content, including metatag content, on the Plaintiff's website was written by an employee named Robert Gennaro, with some input from Mr. Demarinis.
- 3 Red Label has three registered trademarks: "redtag.ca" (TMA657,520), "redtag.ca vacations" (TMA657,750), and "Shop. Compare. Payless!! Guaranteed" (TMA675,219) [the Red Label trademarks]. The Plaintiff has used all three Red Label trademarks regularly as early as 2004.
- 4 The Defendant 411 Travel Buys Limited [411 Travel Buys] is an online travel agency offering information to customers through its website, and the availability of agents over the phone to create bookings for travel and travel-related services. It also caters primarily to the Canadian market. Incorporated in 2008, its website went online in January of 2009. Carlos Manuel Lourenco is its sole owner and operator.

5 In 2009, the entirety of the 411 Travel Buys' website was designed and written by an employee/intern, Aniema Ntia. Ms. Ntia received some input and instruction from a hired consultant, Nhu Tran, but was otherwise responsible for the content of the website and in the sole possession of its password. Mr. Lourenco had very little input into the content of the webpage and did not have any special knowledge as to the use of metatags on the website.

6 411 Travel Buys' website did not have an online booking option in 2009. For a customer to book using their services, they would have to call the Defendant's call centre to speak to a representative. The representative would then identify themselves as an employee of 411 Travel Buys, and assist the customer in making a booking.

7 Online travel sales is an inherently seasonal business in the Canadian market, with sales picking up in the fall and tapering off and dropping in late winter of each year.

8 In January of 2009 Mr. Demarinis purchased the domain name "411travelbuy.ca" in his wife's name. He did so with the intention of selling it to the Defendants for a profit. Content was placed on the websites which had the effect of directing visitors to the redtag.ca website.

9 When the Defendants' website went online in January of 2009, a number of its webpages included some identical or very similar content to the Plaintiff's webpages. This information included the title, description and keyword metatags, and the terms "red tag vacations" and "shop, compare & payless". The content was not visible to customers visiting 411 Travel Buys' website, and was located only in the webpage's metadata.

10 On February 26, 2009, the Plaintiff discovered 411 Travel Buys' use of these phrases and alleged copyright and trademark infringement by the use of the Plaintiff's metatags and reference to the Plaintiff's cascading style sheet [CSS] in a folder. Further, the Plaintiff alleges that the style of the two websites is so similar as to suggest copying.

11 On March 10, 2009 Mr. Demarinis called Mr. Lourenco to inform him of the allegedly infringing content and demanded that it be removed immediately.

12 Sometime shortly after the phone conversation, the Defendant's website was taken down entirely and the allegedly infringing content was removed by Ms. Ntia over the course of two days. The offending content was present on the website no longer than from early January to mid-March of 2009.

13 Sometime in March 2009, as a consequence of the Plaintiff registering the domain name 411travelbuy.ca, the Defendant registered the domain names "redtagspecials.ca", "redvacations.ca" and "411 redtagbuys.ca". No content was ever input onto the websites; they were blank domain names, with no capacity to redirect web traffic.

14 Over the period of February to November 2009, the Plaintiffs experienced a lull in web traffic and revenue to a higher degree than in previous years. The estimated period of negative effect or impact on the Plaintiff's business created by the Defendants' alleged infringement is from March to November of 2009.

15 The Plaintiff commenced this action for copyright infringement, trademark infringement, passing off and depreciation of goodwill in the Plaintiff's Red Label trademarks against the Defendant on August 20, 2009. The Plaintiff seeks Judgment for:

a. A declaration that the Defendants, have:

- i. Directed attention to 411Travelbuys' services in such a way as to cause or be likely to cause confusion between 411Travelbuys' services and the services of the Plaintiff contrary to the law and section 7(b) of the *Trademarks Act*;
- ii. Passed off 411 Travel Buys' services as and for those of the Plaintiff contrary to law and section 7(c) of the *Trademarks Act*;

- iii. Infringed the exclusive rights of Plaintiff's trademarks as defined below contrary to section 20 of the *Trademarks Act*;
 - iv. Used the Red Label trademarks in a manner that is likely to have the effect of depreciating the value of goodwill attached thereto contrary to section 22 of the *Trademarks Act*; and
 - v. Reproduced segments of the Plaintiff's website (as defined below) and infringed the copyright in the Plaintiff's website contrary to law and section 27 of the *Copyright Act*.
- b. A permanent injunction restraining the Defendants, their officers, directors, shareholders, agents, servants, employees, successors, assigns and those in privity with or directly or indirectly controlled by the Defendants from:
- i. Directing public attention to 411Travelbuys' services in such a way as to cause or be likely to cause, confusion between the services of the Plaintiff and those of the Defendants;
 - ii. Passing off 411 Travel Buys' services as those of the Plaintiff and/or sanctioned, approved or authorized by the Plaintiff;
 - iii. Infringing Red Label trademarks;
 - iv. Using the Red Label trademarks in a manner that results in the depreciation of the goodwill attaching thereto;
 - v. Infringing the copyright in the Plaintiff's website, including the Plaintiff's exclusive right to reproduce same; and
 - vi. Authorizing, inducing or assisting others, to do any of the aforesaid acts.
- c. A mandatory order directing the Defendants to transfer or cause to transfer to the Plaintiff any domain names owned or controlled by the Defendants which are likely to be confusing with the Red Label trademarks, including but not limited:
- i. redtagspecials.ca;
 - ii. 411 redtagbuys.ca; and
 - iii. redvacations.ca.
- d. With respect to the cause of action based upon the *Trademarks Act*, damages against the Defendants of \$760,000.00 (seven hundred and sixty thousand dollars) suffered by the Plaintiff in 2009 as a result of the Defendants' unlawful activities and a further sum for damages suffered by the Plaintiff for the period of time following 2009;
- e. With respect to the cause of action upon the *Copyright Act*, damages against the Defendants of \$760,000.00 (seven hundred and sixty thousand dollars) as a result of the Defendants' unlawful activities; and a further sum for damages suffered by the Plaintiff for the period of time following 2009;
- f. Damages against the Defendants in the sum of \$760,000.00 (seven hundred and sixty thousand dollars) suffered by the Plaintiff in 2009 as a result of the unlawful activities of the Defendants and a further sum for damages suffered by the Plaintiff for the period of time following 2009;
- g. Dismissal of the counterclaim of 411 Travel Buys Ltd (Plaintiff by Counterclaim) against the Plaintiff, (Defendant by Counterclaim) with costs payable by 411 Travel Buys Ltd (Plaintiff by Counterclaim) to Plaintiff, (Defendant by Counterclaim), including disbursements and HST on a full indemnity basis;
- h. Pre-judgment and post-judgment interests;
- i. Cost of this action payable to the Plaintiff by the Defendants on a full indemnity basis plus, disbursements and HST; and

j. Punitive and exemplary damage against the Defendants.

16 On October 6, 2009, the Defendant filed a defence and counterclaim for passing off against the Plaintiff.

II. Issues

A. Plaintiff's Claim

A. Copyright

- i. Does copyright subsist in the Plaintiff's metatags?; and
- ii. If so, did either of the Defendants infringe the Plaintiff's copyright in the metatags by using same on the Defendants' website;
- iii. Did either of the Defendants infringe the Plaintiff's copyright by using the Plaintiff's cascading style sheet(s) or by copying the "look and feel" of the Plaintiff's website?;
- iv. If either of the Defendants' infringed the Plaintiff's copyright in the metatags, was that infringement innocent?
- v. What remedy or remedies is the Plaintiff entitled to as a result of any copyright infringement as alleged?

B. Trademarks

- vi. Did either of the Defendants' use of the words or trademarks redtag.ca, redtag.ca vacations or Shop. Compare. Payless!! Guaranteed and Trademark registrations TMA657,520, TMA657,750 and TMA675,219 in respect thereof, on the Defendants' website constitute trademark infringement, passing off or cause depreciation of goodwill, contrary to section 7(b), 7(c), 20 or 22 of the *Trademarks Act*?; and
- vii. If so, what remedy or remedies and costs is the Plaintiff entitled to as a result of such infringement?

C. Defendants' Counterclaim

- viii. Did the Plaintiff's use of 411 Travel Buys in the text or metatags of any websites constitute passing off contrary to section 7(b) or 7(c) of the *Trademarks Act*?; and
- ix. If so, what remedy or remedies are fair and available to the Defendants as a result of that infringement?

17 For the reasons that follow, I find:

A. Copyright

- i. Copyright does not subsist in the Plaintiff's combination of the title, description and key word metatags used by the Defendants;
- ii. The Defendant 411 Travel Buys' use of the Plaintiff's metatags does not constitute copyright infringement. The individual defendant Carlos Lourenco did not personally infringe any rights of the Plaintiff;
- iii. If there had been infringement of the Plaintiff' copyright by 411 Travel Buys, it would have been innocent infringement. Consequently, only injunctive relief would have been available to the Plaintiff;
- iv. The Defendants did not infringe the Plaintiff's copyright on the cascading style sheet(s) or in the look and feel of the website;

v. No remedy is necessary.

B. Trademarks

vi. Use of the Red Label trademarks by the Defendant 411 Travel Buys does not constitute trademark infringement under section 20 of the *Trademarks Act*, or passing off or depreciation of goodwill, contrary to section 7(b), 7(c) or 22 of the *Trademarks Act*. Given my findings on copyright and trademark rights of the Plaintiff, there are no damages or other remedies available to the Plaintiff;

vii. Costs to the Defendant awarded under Tariff B column III.

C. Defendants' Counterclaim

viii. The Defendants' counterclaim is dismissed. There is insufficient evidence to establish a reputation that would entitle the Defendants to relief in a passing off claim for the Defendants in respect of the Plaintiff's use of 411 Travel Buys, in the relatively short period the Defendants' website has been in existence, or having regard to the limited use of the words 411 Travel Buys by the Plaintiff. Further, no evidence of damages resulting from the alleged misuse of 411 Travel Buys by the Plaintiff has been provided by the Defendants for the Court to consider;

ix. The Plaintiff's misappropriation of the Defendants' business name for the improper purpose of selling it back to the Defendants for a profit shows a course of bad conduct by the Plaintiff that further negates any claim by the Plaintiff for enhanced, punitive or exemplary damages.

III. Evidence

A. Plaintiff's Witnesses

(1) Vincenzo Demarinis

(a) Evidence in Chief

18 Mr. Demarinis has been the President and CEO of Red Label Vacations Ltd [Red Label] since its incorporation in 2004. Red Label is an online travel business that allows customers to purchase travel and related services online through their website redtag.ca, and by phone, by directing them to a call center to speak with an agent. Red Label owns 3 registered trademarks: "redtag.ca" (TMA657,520), "redtag.ca vacations" (TMA657,750) and "Shop. Compare. Payless!! Guaranteed" (TMA675,219).

19 In order to remain informed about the website's performance, Red Label contracted ComScore in 2008-2011 to provide reports which were accessed monthly. Mr. Demarinis was also in the habit of regularly searching his website on Google to monitor its rankings. When performing one of these searches in February of 2009, he noted a number of the Defendants' webpages appearing, showing similarities to redtag.ca in their metatags (including content, ordering and misspellings). It was Mr. Demarinis' belief that the similarities constituted copyright and trademark infringement.

20 In early March 2009, Mr. Demarinis phoned Mr. Lourenco to inform him of the infringement, to which Mr. Lourenco replied he knew nothing about it, but would look into the allegation. Sometime shortly thereafter 411travelbuys.ca was taken down and the offending content was removed. Later that same month, Mr. Demarinis learned that Mr. Lourenco had registered the following three domain names: "redtagspecials.ca", "411 redtagbuys.ca" and "redvacations.ca".

(b) Evidence in Cross-Examination

21 Mr. Demarinis established that the majority of redtag.ca's total advertising budget was spent on advertising with Google Ad Words. He further confirmed that the "online sales" portion as identified on a spreadsheet breaking down redtag.ca's sales by category in January of 2009, accounted for \$6,535,601 in revenues. He clarified though that sales generated by someone visiting the website then deciding to call in to the center would not be accounted for in that figure.

22 Mr. Demarinis was also questioned about his registration of the domain name "411travelbuy.ca" through his wife's name in early 2009, prior to Mr. Lourenco's registration of the above three domain names, and stated that he had personally purchased the name with the intention of selling it to Mr. Lourenco for a small profit.

(2) *Robert Gennaro*

(a) Evidence in Chief

23 Mr. Gennaro has been a Red Label employee since 2005. He began in a data entry role for the red tag website, which evolved to become Search Engine Optimization [SEO] director. He estimated that 95% of Red Label's business is online, despite their call center handling much of their bookings. Since Red Label does not advertise their phone number, customers must visit the website to find out how to call to make travel, hotel and vacation reservations.

24 Much like Mr. Demarinis, Mr. Gennaro checks redtag.ca's online performance regularly. He primarily uses Google Analytics to establish where redtag.ca's traffic comes from and attempts to streamline metatags, to attract more organic keyword searches.

25 Mr. Gennaro estimated that in early 2009, redtag.ca had approximately 180,000 webpages associated with the website and approximately 70,000-80,000 of those were core pages (though he could not be certain), which required his personal attention to write the content (as much as one day's efforts per page). His evidence on this front lacked credibility, given that the time frame he estimated to create the web pages is unrealistic. He continued to recognize some content in webpages put before him as his own writing, which he estimated to have been written at some point in 2007.

26 In February 2009, Mr. Gennaro noticed some irregularities in the website's Google Analytics and did a search for the redtag.ca website, discovering the same allegedly infringing content of the Defendant as Mr. Demarinis. He also noted the presence of the redtag.ca CSS in the Defendant's website, and believes that the two websites resembled each other in style as well as the infringing metatag content.

(b) Evidence in Cross-Examination

27 Mr. Gennaro clarified on cross examination that of the 180,000 pages on redtag.ca's website, many that refer to car rentals or hotels do not require much time to fill with content, whereas others require more attention. He estimated he had personally written the content for between 4,000 and 15,000 of the more content-heavy pages by 2009. He had trouble explaining the time frame he allegedly used to create the core web pages and content, as well as the specific number of pages he created personally, and lacked credibility on this point.

28 With respect to Mr. Byers' opinion that the similarities in style between the Plaintiff's and Defendant's websites were typical of industry-wide websites in 2009, he disagreed.

(3) *Aniema Ntia*

(a) Evidence in Chief

29 Ms. Ntia was retained by Mr. Lourenco and by 411travelbuys.ca as an intern in September 2008, to complete her placement requirement for Humber College's Advanced Web Development for E-Commerce Business program. She testified in court that while her placement ended in January of 2009, she did not officially become an employee of 411travelbuys.ca until February of 2011. The transcript of her interview for discovery however confirmed that she had previously agreed her employment with 411 Travel Buys began in November 2008.

30 In July and August of 2008, she met a handful of times with Mr. Lourenco, in order to discuss her placement and what it would entail. It was clarified that Ms. Ntia's role was to set up the entire 411travelbuys.ca website. At these meetings, Mr.

Lourenco showed her a number of example websites of what he liked in terms of function and flow, though she did not recall specifically if he showed her redtag.ca in these meetings.

31 She made a number of attempts at coding the Defendants' website from scratch, but eventually purchased a template from Joomlashack. She did most of her work on her personal laptop, which already had the necessary software, until October 2011, at which time she gave the laptop to her son in Nigeria.

32 While she eventually had help from others in developing the website, she was the administrator and sole password-holder. The only specific instruction Ms. Ntia received from Mr. Lourenco about the content of the webpages was not to be afraid to use the word "cheap" throughout their content. Beyond this input, he did not limit or tell her what to include. In the first year of the website, Ms. Ntia testified that she created all of the approximately 100 pages of 411travelbuys.ca herself.

33 Her initial attempts to design the website involved placing a number of pages for the website under a single "head". When Mr. Lourenco expressed his disapproval at this design, he hired Mr. Nhu Tran to consult on SEO, as well as oversee Ms. Ntia's work. While Mr. Tran was consulting about the content of the website, it was ultimately Ms. Ntia who would have to input the information, or grant access for another to do so. In an initial meeting, Mr. Tran used the redtag.ca website to demonstrate the use of metatags in SEO. She admitted it is possible he input content from redtag.ca as a demonstration and she forgot to remove the information before it was saved onto the Defendants' website.

34 Ms. Ntia insists that she did not notice the infringing content until Mr. Demarinis called Mr. Lourenco to bring it to his attention in March 2009. After this call, Mr. Lourenco was noticeably upset and asked Ms. Ntia to take the website down and review all its content to ensure there would not be any other issues. She obliged and devoted two straight days to removing and re-writing all the metatags and checking to ensure that the website had original content.

(b) Evidence in Cross-Examination

35 In cross examination, Ms. Ntia confirmed that she had not received any training in trademark and copyright law, and that Mr. Lourenco had never asked her to copy anything from another website. Overall, Ms. Ntia's position is that writing and ordering of metatags takes little skill or judgment. I found Ms. Ntia to be a credible witness.

36 She further confirms that in January to March of 2009, there was no way of booking online at 411travelbuys.ca. A customer would have to visit the website and then call in to make a booking by speaking with an agent over the phone.

(4) Nhu Tran

(a) Evidence in Chief

37 Mr. Tran was hired by Mr. Lourenco to advise on SEO, as well as to help Ms. Ntia to design the content of the Defendants' website. For the duration of his association with 411travelbuys.ca, Mr. Tran maintained he did not have access to the servers, and any work he did was sent to 411 employees to be implemented.

38 He remembered having given advice as to how to improve the site's rankings on search engines like Google, but when the results were not to Mr. Lourenco's satisfaction, they parted ways in 2010. He insists that at no time did he suggest another party's trade names, trademarks, or web content be copied into the Defendant's website.

(b) Evidence in Cross Examination

39 Despite his insistence that he had no control over the Defendants' server and that he did not suggest to Ms. Ntia to copy redtag's website, in referring to Exhibit 33, it was proven that Mr. Tran had shown redtag's information to Ms. Ntia as an example she could follow.

(5) Ephraim Stulberg

40 Mr. Stulberg is a Senior Manager and VP of Matson, Driscoll & Damico Ltd in Toronto, an international forensic accounting firm. He has 6 years of experience in investigative and forensic accounting, and has focused exclusively on economic damage quantification and business valuations since entering the industry in 2008. He is qualified as a forensic accountant, but the Defendants object to his evidence in paragraphs 40 to 45 of his expert report, as he is not an SEO expert.

(a) Evidence in Chief

41 Mr. Stulberg has calculated the Plaintiff's lost profits resulting from the Defendants' alleged infringement at \$760,000. Based on his review of their financial records he believes they suffered a loss of profits for longer than strictly the period of the alleged infringement (January to March 2009); specifically, from February to November 2009 [the affected period].

42 After reviewing the Plaintiff's financial records for 2008, Mr. Stulberg added a growth rate of 10% (based on the Plaintiff's historic rate of growth, travel industry data from Statistics Canada, comparable public companies, and analysis of the Plaintiff's main vendors), to determine their projected revenue for the affected period. He estimated the cost of sales at approximately 93.9%, as well as variable sales commission and bad debt costs of 0.99% of revenue. He also factored in threshold sales commissions of 0.96% of the lost revenue that would have been earned.

43 According to trends in the Plaintiff's rate of growth from 2004 to 2008, Mr. Stulberg estimates that the Plaintiff's revenue in 2009 should have been approx. \$120,000,000 and \$140,000,000 in 2010. In contrast, their actual revenue in 2009 was \$100,000,000 and \$131,000,000 in 2010. Looking on a monthly basis, Mr. Stulberg notes strong growth patterns continued for the Plaintiff through January 2009, but from February 2009 to December 2009 revenue growth collapsed.

44 The Plaintiff's six top vendors prior to the affected period (Transat Holidays, Sunwing Vacations, Air Canada Vacations, Sunquest Vacations, Signature Vacations, Nolitours), accounted for over 50% of the Plaintiff's revenue. In Mr. Stulberg's opinion, when expressed in graph form the decline in revenue from these vendors and the affected period closely overlap, indicating likelihood the two are causally connected.

45 While acknowledging that it is possible that a portion of the Plaintiff's declining revenue can be attributed to negative industry trends, the Plaintiff's rate of revenue growth prior to 2009 exceeded the industry average; as well, online travel agency revenue declined less overall in 2009 than the rest of the industry, and use of online travel agencies increased in Canada by 4%.

46 Due to the global client base of comparable public companies like Expedia, their data was limited in relevancy to analyzing the Plaintiff's situation. This unfortunately makes it difficult to account for any effect the relative growth rates of competitor companies might have had on the Plaintiff during the affected period. Another consideration in calculating the Plaintiff's loss in revenue was that Conquest Vacations ceased operations in April of 2009 (a vendor who previously accounted for approximately 4% of the Plaintiff's revenue).

47 Mr. Stulberg also considered damage to the Plaintiff's revenue in the form of lowered performance on organic keyword searches in online search engines (derived from Google Analytics statistics). Between November 2008 and January 2009, there was growth in the Plaintiff's organic keyword searches, and during the affected period, their performance began to slow substantially. Mr. Stulberg opines that this trend was exacerbated by the downgrading in rankings by a search engine when multiple versions of a website are perceived.

(b) Evidence in Cross-Examination

48 In cross-examination, Mr. Stulberg confirmed that he has no background or training in web optimization and that he made assumptions regarding a correlation between web traffic and revenue while relying on the 2008 Google data Mr. Byers had testified was irrelevant due to updates in the Google algorithm around that time. This reliance brings into question his 10% projected growth estimate for the Plaintiff's revenue.

49 While he made efforts to incorporate characteristics of the online travel industry in his report, he is not an expert in the field. For example he did not consider the effects of competitor companies increasing their efforts to attract online customers

when calculating the Plaintiff's projected loss, but insists that his 10% projected growth rate included a conservative buffer to account for such eventualities. I find that the lack of a concrete foundation for the assumptions made and calculations of losses due to the Defendants' alleged infringements render his conclusions on lost profits and damages speculative at best.

50 He also explained that he had not included the months of August, September and October in some of his calculations due to timing constraints but agreed that their inclusion would produce a better-rounded picture of the Plaintiff's business.

(6) Barry James Byers

51 Mr. Byers is the founder of Search Engine Academy Toronto (2002), an internet marketing school for business owners and marketing professionals. He is certified as a Neuro Linguistic Programming Practitioner, as well as certified to teach Advanced SEO. It was accepted by the Defendants that Mr. Byers is an SEO expert.

(a) Evidence in Chief

52 Mr. Byers is of the opinion that the Defendants copied the Plaintiff's website, and that use of the Plaintiff's metatags and content significantly affected the ranking and web traffic for both parties' websites. In coming to this conclusion, he reviewed the metadata of each website (typically used to specify page description, keywords, author of document, last modified, etc., by browsers, search engines and other web services), as well as having reviewed their coding.

53 He noted instances where misspellings in the keyword metatags were identical in sequential order between the websites. While leaving misspellings in such tags is common practice, the level of similarity in this case suggests copying. Further, a number of the Defendants' webpages contained the Plaintiff's brand name or registered trademarks, and similar or identical metatags that had only been modified by adding the word "cheap".

54 In addition, the CSS (a style sheet language used for describing the look and formatting of a document that facilitates manipulation of a website's design) titled "stylesRedTag.css", appears to have been in the Defendants' website folders at some point, indicating it had likely been copied from the Plaintiff. Despite evidence of copying in metatags and coding, Mr. Byers thinks the broader similarities between the websites are in large part industry-wide and not unique to the parties.

55 In analyzing the webtraffic to each website, Mr. Byers focused on the ComScore and Korax webtraffic reports and statistics relating to Google (who held 83% of the Canadian market in 2009). Appearing on the first page of a Google search gets approximately 92% of all Google traffic. Between December 2008 and March 2009, redtag.ca dropped from 21st position in Canadian Travel Industry rankings to 26th in April 2009; dropping again to 38th in May 2009; moving up to 36th in June 2009, then dropped again to 44th in July 2009. In August 2009, they began a 5 month climb back up to 19th position in December 2009.

56 Total unique visitor traffic to the Plaintiff's websites followed a similar pattern to their rankings. There was also a decline in the amount of search hits for the top four branded keyphrases associated with the Plaintiff ('red tag', 'redtag', 'redtag.ca', 'red tag vacations'). Mr. Byers' opinion is that most, but not all, of this decline in keyphrase searches can be attributed to seasonal trends.

57 While several updates to Google between April 2008 and August 2009 made requesting ComScore and Korax analytics for 2008 irrelevant, a Google update in February of 2009 should have increased traffic to the Plaintiff's websites by emphasizing branding, and yet traffic to the Plaintiff's website decreased after it took effect.

58 Mr. Byers is of the opinion that the Defendant's copying of the Plaintiff's websites had the effect of confusing search engines into thinking the Defendants' websites were related to the Plaintiff's, resulting in what appeared to be duplicate documents being filtered out of search results. In his opinion, this process would have begun approximately one month after a website became active and would take another two to three months to complete, and that the original website was more likely to be filtered out. In Mr. Byers' opinion, effects on traffic of the duplicate content would have started to take place in March to June 2009. Once the duplicate websites were removed, it would take approximately three to six months to un-filter, making it likely to start taking place in June to September of 2009.

(b) Evidence in Cross-Examination

59 Mr. Byers admitted there were significant discrepancies between the ComScore and Korax reports of internet search traffic to the Plaintiff's website (see table below). He further admitted that he had referred to both sources in creating his expert report (and even compiled a spreadsheet comparing data from each source relating to 2009) but could not explain the discrepancy in numbers, other than to point out they are two different services using different means to compile data. For example, since Korax was the Plaintiff's hosting server, their data was based on traffic through their own server.

60 Further, Mr. Byers admitted that he is not an expert in the online travel industry and may have failed to make suitable adjustments for the industry's inherent seasonality. He also admitted that neither the ComScore nor the Korax statistics on keyword searches would recognize users who arrived at the Plaintiff's website by a means other than the top 4 keywords he had isolated.

61 With regards to his report's statement that Google's Vince update would reward brand names in their organic keyword search rankings, he admitted he was not certain as to whether Google indeed recognized redtag.ca as a brand at the relevant time. If they did not, it would affect somewhat his opinion about the effect of the Defendant's alleged infringement. Importantly, Mr. Byers further clarified that Google has not for many years (including in 2008/2009) used metatag keywords in its search rankings.

(7) Scott Green

62 Mr. Green is the Controller at Red Label Vacations Inc. He has been in this position since May 31, 2010, and was responsible for the accounting records for the company for the fiscal year ending August 31, 2010 (September 1, 2009-August 31, 2010). His affidavit evidence was accepted by the Defendants without personal appearance or cross-examination at trial.

63 Mr. Green prepared the monthly trial balances, the monthly sales analyses, and the general ledger details for the Plaintiff for the fiscal years ending August 31, 2007 to August 31 2010 on his office computer between September 25 and 30 of 2014. His affidavit evidence was accepted by the Defendants without personal appearance or cross-examination at trial.

(8) Jack Massarelli

64 Mr. Massarelli is a partner with Fazzari + Partners LLP, having worked there since 1994. His work there mostly focuses on assurance and audit engagements of private and public companies, Notice to Readers and general business advice, consulting and tax planning.

65 Mr. Massarelli was responsible for reviewing the file, managing the staff and issuing the Review Engagement Report for the Plaintiff regarding the statements of operations, deficit and cash flows for the year ended August 31, 2005.

66 Mr. Masarelli was also responsible for overseeing the Auditor's Reports of the Plaintiff's business for the years ending August 31, 2006 to August 31 2010. It is his opinion that the financial statements tendered into evidence present the financial position and operations of the Plaintiff fairly. This affidavit evidence was accepted by the Defendants without personal appearance or cross-examination at trial.

(9) Alex V. Bulan

67 Mr. Bulan is the Director and Officer of Korax Inc., a company that provides website hosting, e-mail services, dedicated servers, and domain name registration services, and has been in operation since 1997. It exercises complete control over its network and server infrastructure, and ensures stable, reliable and predictable service through careful monitoring of its equipment.

68 Its web hosting services include a traffic log maintained for each website it hosts which are available to each customer for download for thirteen months, after which they are automatically purged from Korax's servers. They also generate monthly analytics reports for each hosted website summarizing the data contained in the traffic logs, which are available for a limited period (thirteen months between February of 2009 and 2010) after which they are also purged.

69 In Mr. Bulan's words, "the analytics reports typically include indicators such as the most popular pages, the total number of pages requested, and the total volume of data transferred. In addition... [they] include unique visitors, number of visits, visit duration, and search engine keyphrases and keywords." "Unique Visitors" refers to the number of distinct IP addresses requesting pages from a website.

70 Korax was hired to provide web hosting to the Plaintiff's website from June 2004 to present. This affidavit evidence was accepted by the Defendants without personal appearance or cross-examination at trial.

(10) Brent Bernie

71 Mr. Bernie is the President of ComScore Media Metrix Canada [ComScore], and has been since 2002. ComScore provides market research through data related to online audience measurement, e-commerce, advertising, search, video and mobile. The Plaintiff was a subscriber to ComScore's Media Metrix database from December 2008 to March 2011. This service allows clients to access a database using a web interface protected by password, enabling them to access different levels of data depending on their subscription.

72 Reports are not typically included in this service, however customers can access the database to run their own searches to compile their own report. Some reports are available through the database, including a Key Measures report which "provides traffic measurements for a selected list of websites during a selected timeframe".

73 ComScore's data comes primarily from panel and consensus data. Panel data is compiled from approximately two million people worldwide who have agreed to allow ComScore to measure their internet behaviour. Census data is collected through websites and advertisers who place "tags" on their pages and ads allowing ComScore to measure visitors. Mr. Bernie is not aware of any issues affecting the operation and maintenance of the ComScore servers during the relevant period of December 2008 to March 2011.

74 This affidavit evidence was accepted by the Defendants without personal appearance or cross-examination at trial.

(a) Unique Visitor Data to redtag.ca per the ComScore and Korax reports submitted by the Plaintiff in their Affidavit of Documents covering the period of February 2009 to February 2010

<i>Month</i>	<i>ComScore Date — Unique Visitors</i>	<i>Korax Data — Unique Visitors</i>	<i>Difference</i>
February 2009	541,000	560,571	19,571
March 2009	562,000	548,481	13,519
April 2009	399,000	459,825	60,825
May 2009	270,000	370,987	100,987
June 2009	303,000	369,819,	66,819
July 2009	282,000	425,337	143,337
August 2009	386,000	424,747	38,747
September 2009	345,000	421,547	76,547
October 2009	342,000	500,144	158,144
November 2009	432,000	550,498	118,498
December 2009	489,000	582,147	93,147
January 2010	581,000	813,420	232,420
February 2010	757,000	690,433	66,567

B. Defendants' Witnesses

(1) Marco Braggio

(a) Qualifications

75 Mr. Braggio has been a Product Manager in SEO and Web Accessibility and Performance for Walmart Canada Corp since June 2013. Prior to that, he was Lead SEO Specialist at DAC Group (March 2011 - June 2013), Search Engine Marketing Lead for Critter Search Inc (March 2009 - February 2011), and SEO Analyst for Cryptologic Inc (January 2008 - March 2009). He has an Attestation of Collegial Studies in Network and Internet Support from CDI College Montreal. He is qualified as an SEO expert, but not in respect of the industry.

(b) Evidence in Chief

76 Mr. Braggio is of the opinion that having duplicate content on a website is a disadvantage rather than an advantage, and could make it more difficult to achieve a high search ranking and relevance. His report states that search engines can time stamp websites to determine which was the original website, thereby penalizing the duplicate website in rankings.

77 He states that a website's Google ranking depends on how competitive an industry is. Since the travel industry is one of the most competitive online markets, it would take a new website at least a year to catch up to more established websites. Since the Plaintiff's website has consistently rated in the top five for many industry related keywords, the Defendants would have a particularly hard time catching up in rankings to the Plaintiff.

78 Regarding the domain names the Defendants registered sometime in March 2009, they never had a physical website and served only to redirect traffic. In Mr. Braggio's opinion, these domain names had little to no value, since they had no prior webtraffic history or online search engine equity, resulting in no significant ranking or web traffic implications. By using an internet archive called the WayBack Machine, Mr. Braggio was able to find only two instances where traffic was captured from the Plaintiff's website and brought to the Defendants' website, evidencing negligible traffic impact significance.

79 Using the Defendants' Google Analytics report from between January 1 and March 16, 2009, which reviewed all new visitors to the Defendants' websites, only 0.66% can be attributed to keywords related to the Plaintiff's websites, and these keywords only start appearing at 33rd position in the Defendants' top traffic keywords. The same report from March 17-September 1, 2009 shows only 0.1% of new visitors were from keywords related to the Plaintiff.

80 In response to Mr. Byers' opinion that the Defendant's website would have been indexed by search engines by the beginning of 2009, Mr. Braggio does not see any data to substantiate the claim. While the Defendants may have duplicated some of the Plaintiff's websites, he sees no reason to believe this was the sole cause for any loss to the Plaintiff's web traffic or revenue. Other competitors may have contributed to such a loss and were not considered by Mr. Byers.

(c) Evidence in Cross-Examination

81 Mr. Braggio admitted in cross-examination that he had no experience in SEO related to the online travel industry specifically. Mr. Braggio disagreed with Mr. Byers' reports on a number of points. For example, in his opinion registered domain names with no content would not affect search engine rankings of another website. Further, when Google would filter a duplicate website, in his experience it would not filter out the original website, it would be more likely to filter out the duplicate. While he admits that the duplicate content of the Defendants' website could be one factor in the Plaintiff's decline in web traffic during the affected period, he is adamant that it is not the sole, or even primary cause for their losses.

82 Mr. Braggio also admitted that much of the information and articles he relied upon in compiling his report were from long after the affected period, but with little explanation he insisted that much of the information is relevant to 2009. Aside from a 2007 article discussing the increased accuracy of Google's time-stamping, and a Google Analytics report of the Defendant's web traffic from January 1-March 16, 2009 (when the offending material was present on the Defendant's website), the information relied on by Mr. Braggio should be given little weight.

(2) *Carlos Manuel Lourenco*

(a) Evidence in Chief

83 Mr. Lourenco is the sole owner of 411travelbuys.ca, which was incorporated in 2008. He has worked in the travel industry for many years, after having completed a post-secondary travel and leisure course. He is not experienced in web design or development, and prior to this litigation had only a cursory knowledge of metatags and their use.

84 Mr. Lourenco hired Ms. Ntia as a student intern to create the 411 Travel Buys website and keep it up to date. After her placement ended in January 2009, Mr. Ntia became an employee. Mr. Lourenco asked her to create as much content as she could for the website and showed her a number of travel websites as examples of what he thought worked well (including itravel2000.com, and redtag.ca among other UK and North American websites). At no point did he ask her to copy a website or use any other company's metatags. His input on the website was limited, and largely consisted of his advice not to be afraid of using the word "cheap" throughout the website's content. He eventually hired Mr. Tran to assist and instruct Ms. Ntia in how best to optimize the website to attract organic keyword traffic.

85 Mr. Lourenco allocated 411 Travel Buys' advertising budget in its first year across print and online media but largely focused on Google Ad Words (\$25,000-30,000 per month). He confirmed that his website did not have a means of booking online in 2009. A customer would have to call into their call centre in order to book anything; an agent would then identify themselves as a representative of 411travelbuys.ca.

86 In early March 2009, Mr. Lourenco received Mr. Demarinis' phone call informing him of the alleged infringing content. Within a day or two, he contacted Mr. Demarinis asking for more guidance regarding the issue and was directed to a particular Hola Sun page that Mr. Demarinis felt exemplified the infringement. Within a short period of time, he asked Ms. Ntia to shut the website down and to review every page to remove any potentially infringing content. Overall, the website as it appeared to customers never showed any association with redtag.ca, nor was any of the infringing content visible on the 411 Travel Buys website as it appeared to customers.

87 In late March and early April of 2009, Mr. Lourenco discovered that Mr. Demarinis had purchased the domain "411travebuy.ca" and was upset. When someone visited the page they were redirected to the redtag.ca website. In his anger he then bought the domains "411 redtagbuys.ca", "redtagspecials.ca" and "redvacations.ca", but never put any content on them. He has abandoned these domain names.

(b) Evidence in Cross-Examination

88 Mr. Lourenco admitted that he is the sole officer, director and shareholder of 411travelbuys.ca and that he makes all business decisions, now as well as in 2009. While he had little knowledge of website design or development and did not possess the website's password, he had the ultimate final say for its content. He outlined that despite experience working with Google Ad Words for his previous employer, he had limited knowledge of website design and metatag usage in 2009 and relied heavily on Ms. Ntia and Mr. Tran to develop the website. When spelling errors in metatags on the Defendants' website mirroring those of the Plaintiff's were brought to Mr. Lourenco's attention, he insisted he did not know why they were there and assumed there was some sort of strategic reason to include them.

IV. Analysis**A. Copyright**

89 The Defendants raise preliminary objections to the Plaintiff's claim in copyright as not being properly pleaded. The Defendants did not challenge the sufficiency of the Plaintiff's pleading until trial, having plead over by simply denying the Plaintiff's claims in copyright.

90 It is true that to properly plead a claim in copyright, a party should state the identity of the work, such that it is within the meaning of the *Copyright Act*, the nationality of the author and the place of first publication. However, it is clear from discovery that the primary author is Mr. Gennaro, an employee of the Plaintiff, who created the red tag website in the course of

his employment and to a lesser degree, possibly Mr. Demarinis, and that the Plaintiff is a Canadian corporation and the redtag.ca website was first published in Canada. I do not find that the Defendant has raised any valid objections to the Plaintiff's pleading with respect to copyright on these preliminary bases.

91 The parties are in agreement that in order for there to be valid copyright in a work, the work must be original, as stated by the Supreme Court of Canada in *CCH Canadian Ltd. v. Law Society of Upper Canada*, 2004 SCC 13 (S.C.C.) at para 16 [*CCH*]:

16 I conclude that the correct position falls between these extremes. For a work to be "original" within the meaning of the Copyright Act, it must be more than a mere copy of another work. At the same time, it need not be creative, in the sense of being novel or unique. What is required to attract copyright protection in the expression of an idea is an exercise of skill and judgment. By skill, I mean the use of one's knowledge, developed aptitude or practised ability in producing the work. By judgment, I mean the use of one's capacity for discernment or ability to form an opinion or evaluation by comparing different possible options in producing the work. This exercise of skill and judgment will necessarily involve intellectual effort. The exercise of skill and judgment required to produce the work must not be so trivial that it could be characterized as a purely mechanical exercise. For example, any skill and judgment that might be involved in simply changing the font of a work to produce "another" work would be too trivial to merit copyright protection as an "original" work.

92 As well, there is no dispute that whether there is infringement or not is determined under section 3(1) and 27(1) of the *Copyright Act*, such that it is an infringement of copyright for anyone to reproduce "the work or any substantial part thereof". The question of whether a substantial part of a work has been reproduced is determined by its quality and not its quantity. The substantial part of a work is that which represents a substantial portion of the author's skill and judgment (*Robinson c. Films Cinar inc.*, 2013 SCC 73 (S.C.C.) at paras 25-27).

93 There is also no dispute that in this case, the Defendant 411 Travel Buys copied the Plaintiff's metatags, in copying the title tags, meta descriptions and meta keywords on 48 pages of the 411 Travel Buys website. On some pages, even spelling errors in the Plaintiff's metatags were reproduced. Notwithstanding arguments by the Defendants that many of the words used in the metatags are common to the travel industry, which may be true, there is no doubt that copying of the Plaintiff's metatags, as alleged, did occur.

(1) *Does Copyright subsist in the Plaintiff's metatags?*

94 What is a metatag? A metatag is a word or small phrase that's embedded in the source code of a website. It is not visible on the actual page itself. When a person types a phrase into the search bar of a search engine, such as Google, it uses an algorithm to search through the internet looking for web pages with those particular words in them. The greater the number of times a term appears in metatags and in the text of the webpage itself, the greater the chance that a search engine will choose that website to be listed higher on the list of search results (page 1 of the results list as opposed to page 6, for example). Search Engine Optimization is an important step in marketing a company's wares or services. While Google does use some metatag data in their search rankings, it has not used keyword metatags for many years prior to 2009.

(2) *How then does a metatag fit within the scope of copyright protection in Canada?*

95 That question is still being debated in Canada as well as the United States, England and elsewhere in the world.

96 Justice Roger Hughes in *Netbored Inc. v. Avery Holdings Inc.*, 2005 FC 1405 (F.C.), considered copyright in metatags, in the context of a review of the execution of an Anton Piller Order and conversion of an interim injunction into an interlocutory injunction. While commenting generally on copyright in metatags, he questioned whether they are "...simply formulae derived arrangements designed to serve a business function something like the arrangement of information in *Tele-Direct (Publications) Inc v American Business Information* [1998] 2 FC 22 (FCA)". While not deciding the issue, he certainly questioned the merit of copyright protection in metatags.

97 Justice Christopher Grauer, in a more recent decision of the British Columbia Supreme Court in *Insurance Corp. of British Columbia v. Stainton Ventures Ltd.*, 2012 BCSC 608 (B.C. S.C.), found that "the behaviour of search engines is not, in my view,

evidence of anything other than the operation of an algorithm, and search-engine marketing." In that case, he refused to find any evidence of confusion or passing off in the tendency of search engines to turn up the defendant's ICBCadvice.com website among others in response to an internet search for "ICBC". While not on point with respect to copyright infringement, the decision bears scrutiny on the finding that a metatag, in the context of a search engine, is merely "the operation of an algorithm".

98 As stated by the Federal Court of Appeal in *Tele-Direct (Publications) Inc. v. American Business Information Inc.* (1997), [1998] 2 F.C. 22 (Fed. C.A.) [*Tele-Direct*], when considering originality of a work it must be independently created by the author, and which display at least a minimal degree of skill, judgment and labour in its overall selection or arrangement. Moreover, when an idea can be expressed in only a limited number of ways, then its expression is not protected as the threshold of originality is not met (*Delrina Corp. v. Triolet Systems Inc.*, [1998] O.J. No. 2967 (Ont. Gen. Div.) at paras 48-52 [*Delrina*]; leave to appeal refused, [2002] O.J. No. 676 (Ont. C.A.)).

99 In *Distrimedic Inc. v. Dispill Inc.*, 2013 FC 1043 (F.C.), Justice Yves de Montigny of this Court considered the *Tele-Direct* and *Delrina* cases above, and held that the forms and other works resulting from the plaintiff's compilation of elements will not be considered to have a sufficient degree of originality when the selection of the elements entering into the work are dictated by function and/or law, and where their arrangement into a tangible form of expression is not original. He found that only the visual aspect of the work is susceptible to copyright protection, if original.

(3) Did either of the Defendants infringe the Plaintiff's copyright in the metatags by using same on the Defendants' website?

100 The evidence before me shows that the Plaintiff's redtag metatags allegedly copied by the Defendants were substantially derived from a list of Google key words which are then incorporated into short phrases descriptive of travel industry types of travel, locations, and discounts or deals for consumers. Examples included in comparisons of the redtag.ca and 411travelbuys.ca webpages related to, for instance, cruises, group vacations, nolitours and hola-sun holidays, are indicative of the common generic terms used in this regard, to attract consumers, to buy travel packages for various destinations.

101 In this case there is little evidence of any sufficient degree of skill and judgement in creating these metatags, as is required by the test set out by the Supreme Court of Canada in *CCH*, above, or for the originality required in compiling data or other compilations, as discussed by the Federal Court of Appeal in *Tele-Direct*. While in some cases there may be sufficient originality in metatags to attract copyright protection when viewed as a whole, the substance of the metatags asserted by the Plaintiff in this case does not meet the threshold required to acquire copyright protection in Canada.

102 I also find that even if copyright could subsist in the Plaintiff's metatags, there has not been substantial copying, when one has regard to the Plaintiff's website as a whole. The Defendants only copied metatags on 48 pages of approximately 180,000 pages on the Plaintiff's website. While the Court should look at infringement from a qualitative, not quantitative perspective, what is required is substantial similarity between the original work and allegedly infringing work that is observable when they are viewed as a whole. I do not find that a substantial part of the reproduction contains a substantial part of the skill and judgment on the part of the Plaintiff's author or authors — this is particularly true when one considers the use of the metatags is primarily functional in nature: their purpose is to affect the behaviour of search engines, notwithstanding some discretion exists in the choice of words to describe the travel options in the metatags.

103 Moreover, I also find on the evidence that the reproduction of the redtag.ca metatags was inadvertently done by the Defendant 411 Travel Buys and its employee, Ms. Ntia, and would have constituted innocent infringement if any infringement had occurred.

(4) Did either of the Defendants infringe the Plaintiff's copyright by using the Plaintiff's Cascading Style Sheet(s) or by copying the "look and feel" of the Plaintiff's website?

104 I also find there is no evidence before me that the CSS of the Plaintiff allegedly copied by the Defendants was so copied. The only basis for the Plaintiff's allegation rests with a screenshot of a Google search provided by Mr. Gennaro, and nothing more. The Plaintiff's own witness, Mr. Byers, admitted this was the case. Further, no CSS from the Plaintiff was entered into evidence to compare to the Defendants' CSS. It is also admitted by the Plaintiff's witness Mr. Byers that the three-column "look"

of the parties' websites was common in travel industry websites in 2009, and Ms. Ntia testified that she created the website from a template she purchased. I do not find any copyright infringement by the Defendants on these fronts.

B. Trademarks & Trade Name

105 There is no dispute that the Defendants used the phrases "red tag vacations" (in the metatags of one 411 Travel Buys page) and "shop, compare & pay less" (in the metatags of three 411 Travel Buys pages), thereby using the dominant words of the Plaintiff's trade name and registered trademarks, redtag.ca, redtag.ca vacations and Shop. Compare. Pay Less!! Guaranteed. None of the Plaintiff's trademarks were used by the Defendants in the visible portion of any of 411 Travel Buys' web pages.

106 The 411 Travel Buys website went public (online) on January 5, 2009 and was taken down on March 10, 2009, the same day Mr. Demarinis of the Plaintiff advised Mr. Lourenco of the Defendants of the misuse of the Red Label trademarks. The 411 Travel Buys website did not go back online until after all the metatags using the alleged trademarks and copyright infringing words and phrases were removed.

107 It is also acknowledged by the Defendants that, unlike in copyright cases, unintentional or innocent infringement is no defence to claims of passing off under sections 7(b), 7(c) of the *Trademarks Act*, trademark infringement under section 20, or loss of good will under section 22.

V. Passing Off

108 As both parties again acknowledge, for the Plaintiff to succeed under section 7(b) of the *Trademarks Act*, Red Label must prove three elements:

- a. The existence of goodwill;
- b. The likelihood of deception of the public due to a misrepresentation; and
- c. Actual or potential damage to the Plaintiff.

Ciba-Geigy Canada Ltd. v. Apotex Inc., [1992] 3 S.C.R. 120 (S.C.C.) at para 33

109 As with copyright, there is some dispute internationally on whether use of trademark in a metatag can constitute passing off or trademark infringement. Both the English Court of Appeal, in *Jennings v. Rice*, [2002] EWCA Civ 159 (Eng. C.A.); at para 147, and the British Columbia Supreme Court, in *Insurance Corp. of British Columbia v. Stainton Ventures Ltd.*, 2012 BCSC 608 (B.C. S.C.) at paras 46-47 [*ICBC*], found that use of a trademark (and, I would add, a trade name) in a metatag would not support a finding of confusion, or a likelihood of deception, and therefore trademark infringement or passing off could not be proven by that use alone. As stated by Justice Grauer in the *Insurance Corp. of British Columbia* case, above:

[t]he behaviour of search engines is not, in my view, evidence of anything other than the operation of an algorithm, and search-engine marketing. It is certainly not evidence of confusion.

110 However, in contrast to these two cases, the Ontario Superior Court of Justice in *Pandi v. FieldOfWebs.com*, [2007] O.J. No. 2739 (Ont. S.C.J.) at para 32, stated that a website appearance can be an instrument of passing off in much the same way as a business storefront in the physical world, and at paras 36-39, in considering use of a trade name or trademark in a metatag, stated:

36 Internet commerce is not, however, completely comparable to pre-electronic commerce. There are opportunities for competitive advantage and technical capabilities to engage in unfair practices that never existed before the advent of the internet and internet search engines. Meta tags appear to be one of them. Meta tags associated with a website are capable of bringing members of the internet public to a site who may not have intended to go there. The meta tags used by FOW in association with its site is the third subject matter of the plaintiffs' complaints in connection with its claim of passing off.

38 It seems to me that an obvious (though not necessarily the only) reason for FOW's use of the phrase "Jumpin Jammerz" as a meta tag for its website was to draw members of the internet public to its site who had some prior knowledge of Jumpin Jammerz as a vendor of pajamas and believed that they could find footed pajamas at the website associated with the words "Jumpin Jammerz".

39 In the physical world, this might be analogized to misleadingly diverting traffic from one trader's door to that of another. The analogy is necessarily imperfect in that the product of search engines is merely a list, thus leaving the internet traveller with the choice as to which sites on the list to visit and in what sequence, but in my view, the practice of using another trader's domain name, trade name, trade mark or logo as a meta tag for a website selling competing wares is objectionable unless the name or mark itself is merely descriptive of the wares sold.

A. Existence of Goodwill

111 Based on the evidence, including marketing on television, radio and print media, as well as online media such as Google Ads, I find that the substantial advertising and use by the Plaintiff of its Red Tag trade name and its redtag.ca trademark as well as use of the Shop.Compare. Payless!! Guaranteed. trademark, have generated sufficient goodwill or reputation in both the trade name and trademarks as used in association with the Plaintiff's travel services. There is little evidence in respect of use of redtag.ca vacations and I do not find that a sufficient reputation or goodwill have been developed in respect of that trademark.

B. Likelihood of misrepresentation

112 The parties are direct competitors for providing essentially the same travel services online to existing and prospective customers. There is no denial by the Defendants about the use of the Plaintiff's Red Tag trade name, the words "red tag vacations", or the words "shop. compare & pay less", in the Defendants' metatags from January 5, 2009 to March 10, 2009. This use, at least of the words red tag, by the Defendants, resulted in some redirected traffic from the Plaintiff's website providing travel services to the Defendants' website providing the same or very similar travel services, for a period of time.

113 The question I must answer is whether the Defendants' use of the Plaintiff's trade name and the likely confusing words red tag vacations, red tag and shop. compare & payless words, as metatag identifiers, to attract business to the Defendants' website, constitutes passing off by causing a likelihood of deception.

114 Some United States Courts have held such use can cause "initial interest confusion", where confusion is caused in the customer before actually purchasing a good or service, when the customer seeks a particular brand of goods or services, but is drawn or enticed to a competitor's goods or services through the competitor's use of the first company's trade name or trademark.

115 However, that approach to likelihood of confusion has not to my knowledge gained a foothold in Canada. In any event, I do not believe that it would be applicable to the facts of this case. The use of metatags in a search engine merely gives the consumer a choice of independent and distinct links that he or she may choose from at will, rather than directing a consumer to a particular competitor. Rankings may affect the choice to be made, but nevertheless, such a choice exists. Even if a searcher is looking for the website connected with a particular trade name or trademark, once that person reaches the website, there must be confusion as to the source of the entity or person providing the services or goods. If there is no likelihood of confusion with respect to the source of the goods or services on the website, there is no support for finding this prong of the test for passing off. Accordingly, use of a competitor's trademark or trade name in metatags does not, by itself, constitute a basis for a likelihood of confusion, because the consumer is still free to choose and purchase the goods or services from the website he or she initially searched for.

116 Here, there is no use of any of the Plaintiff's trademarks or trade names on the Defendants' visible website. The website is clearly identified as 411 Travel Buys' website. There is no likelihood of deception as to the source of the services provided on the 411 Travel Buys website, and the consumer is free to redirect his or her search to the Plaintiff's website.

117 Given that I find there is no likelihood of deception, and therefore no passing off, I need not decide on what if any damages may have been incurred on this front.

C. Trademark Infringement

118 The Plaintiff has alleged trademark infringement under section 20 of the *Trademarks Act*. In order to establish infringement under section 20 "a plaintiff must establish that: (1) it is entitled to commence the action with respect to the registered trade-mark in issue; and that (2) a sale, distribution or advertisement of any wares or services has occurred; (3) in association with a confusing trade-mark or trade-name; (4) by a person not entitled under the Trade-marks Act to the use of the registered trade-mark; (5) as a trade-mark" (Kelly Gill, *Fox on Canadian Law of Trade-marks and unfair Competition*, Fourth Edition, Toronto ON, Carswell, 2014).

119 Section 20 of the *Trademarks Act* states:

Infringement

20. (1) The right of the owner of a registered trade-mark to its exclusive use shall be deemed to be infringed by a person not entitled to its use under this Act who sells, distributes or advertises wares or services in association with a confusing trade-mark or trade-name, but no registration of a trade-mark prevents a person from making

(a) any bona fide use of his personal name as a trade-name, or

(b) any bona fide use, other than as a trade-mark,

(i) of the geographical name of his place of business, or

(ii) of any accurate description of the character or quality of his wares or services, in such a manner as is not likely to have the effect of depreciating the value of the goodwill attaching to the trade-mark.

Exception

(2) No registration of a trade-mark prevents a person from making any use of any of the indications mentioned in subsection 11.18(3) in association with a wine or any of the indications mentioned in subsection 11.18(4) in association with a spirit.

Violation

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 non admise à l'employer selon la présente loi et qui vend, distribue ou annonce des marchandises ou services en liaison avec une marque de commerce ou un nom commercial créant de la confusion. Toutefois, aucun enregistrement d'une marque de commerce ne peut empêcher une personne:

a) d'utiliser de bonne foi son nom personnel comme nom commercial;

b) d'employer de bonne foi, autrement qu'à titre de marque de commerce:

(i) soit le nom géographique de son siège d'affaires,

(ii) soit toute description exacte du genre ou de la qualité de ses marchandises ou services, d'une manière non susceptible d'entraîner la diminution de la valeur de l'achalandage attaché à la marque de commerce.

Exception

(2) L'enregistrement d'une marque de commerce n'a pas pour effet d'empêcher une personne d'utiliser les indications mentionnées au paragraphe 11.18(3) en liaison avec un vin ou les indications mentionnées au paragraphe 11.18(4) en liaison avec un spiritueux.

120 Section 4(2) of the *Trademarks Act* provides that a trademark is deemed to be used in association with services if it is used or displayed in the performance or advertising of those services.

121 For the reasons I have given above with respect to likelihood of deception under passing off, I do not find that use of the Plaintiff's trade name or trademarks in metatags constitutes trademark infringement.

(1) *Section 7(c) of Trademarks Act*

122 There is no evidence before me to support a claim under section 7(c) of the *Trademarks Act*.

(2) *Section 22 — Depreciation of Goodwill*

123 The section 22 claim for depreciation of goodwill requires four elements to be proven:

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).

Veuve Clicquot Ponsardin c. Boutiques Cliquot Ltée, 2006 SCC 23 (S.C.C.) at para 46

124 "Use" under section 22 requires use of the plaintiff's trademarks, as registered. There has been no such use here and accordingly, section 22 does not apply. Moreover, even if it could arguably be said that there is at least some use of redtag.ca by use of red tag, that use was not in any visible portion of 411 Travel Buys' website, it was in the metatags. There is no connection between the online services of 411 Travel Buys on their website and the services of the Plaintiff as offered on 411 Travel Buys' website.

VI. Liability of Carlos Lourenco

125 The test for finding an officer or director of a corporation personally liable is set out in *Tommy Hilfiger Licensing Inc. v. Produits de Qualité I.M.D. Inc.*, 2005 FC 10 (F.C.) at paras 140-142:

140 The Ontario Court of Appeal held in *Normart Management Ltd. v. West Hill Redevelopment Co.* (1998), 37 O.R. (3d) 97, page 102:

It is well established that the directing minds of corporations cannot be held civilly liable for the actions of the corporations they control and direct unless there is some conduct on the part of those directing minds that is either tortious in itself or exhibits a separate identity or interest from that of the corporations such as to make the acts or conduct complained of those of the directing minds: see *Scotia McLeod Inc. v. Peoples Jewellers Ltd.* (1995), 26 O.R. (3d) 481 at p. 491, 129 D.L.R. (4th) 711 (C.A.).

141 Therefore, the mere fact of exercising control in a company is not sufficient to establish personal liability. What kind of conduct can trigger personal liability? Le Dain J.A. offers his views in *Mentmore Manufacturing Co., Ltd. v. National Merchandising Manufacturing Co. Inc.* (1978), 89 D.L.R. (3d) 195, (1978), 22 N.R. 161 (F.C.A.):

What, however, is the kind of participation in the acts of the company that should give rise to personal liability? It is an elusive question. It would appear to be that degree and kind of personal involvement by which the director or officer makes the tortious act his own. It is obviously a question of fact to be decided on the circumstances of each case.[...]

142 In my opinion, there must be circumstances from which it is reasonable to conclude that the purpose of the director or officer of a company is to deliberately, willfully and knowingly pursue a course of conduct that will incite infringement or an indifference to the risk of infringement. The precise formulation of the appropriate test is obviously a difficult one. Room must be left for a broad appreciation of the circumstances of each case to determine, if there is personal liability (*Mentmore*, supra, at pages 172-174).

126 In cases where personal liability is found, there has been a knowing, deliberate, wilful quality to the participation of the corporate officer or director. As well, small or closely held corporations are not to be treated any differently:

31 This principle applies not just to large corporations, but to small, closely held companies as well. As the Federal Court of Appeal noted in *Mentmore*, at para. 24, there is no reason why small, one or two-person companies should not have the benefit of the same approach to personal liability as large corporations, merely because there is generally and necessarily a greater degree of direct and personal involvement in management on the part of its shareholders and directors.

32 That is, the mere fact that individual defendants may be sole shareholders and directors of a company is not, by itself, enough to support an inference that the company was their agent or instrument in the commission of acts of infringement, or that they authorized such acts, so as to make themselves personally liable: *Mentmore*, at para. 24.

33 The necessary result of this is that not only will the particular direction or authorization required for personal liability not be inferred merely from the fact that a company is closely controlled: it will also not be inferred from the general direction which those in such control must necessarily impart to its affairs: *Mentmore*, at para. 24.

34 The Federal Court of Appeal concluded in *Mentmore* that to attract personal liability on the part of a corporate director or officer:

[T]here must be circumstances from which it is reasonable to conclude that the purpose of the director or officer was not the direction of the manufacturing and selling activity of the company in the ordinary course of his relationship to it but the deliberate, willful and knowing pursuit of a course of conduct that was likely to constitute infringement or reflected an indifference to the risk of it: at para. 28.

Petrillo v Allmax Nutrition Inc., 2006 FC 1199 at paras 31-34

127 There is no evidence before me that Mr. Lourenco acted in any way outside the normal course of his duties as an officer and director of 411 Travel Buys. To the contrary, he appears to have acted in good faith and without any knowing or willful disregard for the Plaintiff trade name and trademark rights, or any other property rights of the Plaintiff's. He is not personally liable.

VII. Remedies

128 Given my decision that there has been no violation of the Plaintiff's alleged copyright or trademark rights, there is no need to consider quantification of alleged lost profits of the Plaintiff.

Judgment

THIS COURT'S JUDGMENT is that:

1. The Plaintiff's action is dismissed, and the Defendants' counterclaim is dismissed;
2. Costs to the Defendants under Tariff B column III.

Action dismissed; counterclaim dismissed.

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Tab 12

2006 SCC 43
Supreme Court of Canada

Robertson v. Thomson Corp.

2006 CarswellOnt 6182, 2006 CarswellOnt 6183, 2006 SCC 43, [2006] 2 S.C.R. 363, 151 A.C.W.S. (3d) 103, 217 O.A.C. 332, 274 D.L.R. (4th) 138, 353 N.R. 104, 52 C.P.R. (4th) 417, 82 O.R. (3d) 560 (note), J.E. 2006-2002

Heather Robertson, Appellant/Respondent on cross-appeal and The Thomson Corporation, Thomson Canada Limited, Thomson Affiliates, Information Access Company and Bell Globemedia Publishing Inc., Respondents/Appellants on cross-appeal and Canadian Newspaper Association and Canadian Community Newspaper Association, Interveners

Abella J., Bastarache J., Binnie J., Charron J., Deschamps J., Fish J., LeBel J., Major J., McLachlin C.J.C., Rothstein J.

Heard: December 6, 2005 - April 18, 2006

Judgment: October 12, 2006

Docket: 30644

Proceedings: reversing in part (2004), 34 C.P.R. (4th) 161, 2004 CarswellOnt 4015, 72 O.R. (3d) 481, 243 D.L.R. (4th) 257, 190 O.A.C. 231 (Ont. C.A.); affirming (2001), 2001 CarswellOnt 3467, [2001] O.J. No. 3868, 15 C.P.R. (4th) 147, 86 O.T.C. 226 (Ont. S.C.J.)

Counsel: Michael McGowan, Ronald E. Dimock, Dorothy Fong, Sangeetha Punniyamoorthy, Gabrielle Pop-Lazic, for Appellant/Respondent on cross-appeal

Sheila R. Block, Wendy Matheson, Andrew Bernstein, Jill Jarvis Tonus, for Respondent/Appellants on cross-appeal

Thomas G. Heintzman, Barry B. Sookman, for Interveners

Subject: Civil Practice and Procedure; Intellectual Property; Property

Table of Authorities

Cases considered by *LeBel J.*:

Allen v. Toronto Star Newspapers Ltd. (1997), 152 D.L.R. (4th) 518, 105 O.A.C. 191, 78 C.P.R. (3d) 115, 36 O.R. (3d) 201, 1997 CarswellOnt 4087 (Ont. Div. Ct.) — referred to

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Édutile Inc. v. Automobile Protection Assn. (APA) (2000), 255 N.R. 147, [2000] 4 F.C. 195, 188 D.L.R. (4th) 132, 2000 CarswellNat 744, 6 C.P.R. (4th) 211, 2000 CarswellNat 1258, (sub nom. *Édutile Inc. v. Automobile Protection Association*) 181 F.T.R. 160 (Fed. C.A.) — considered

New York Times Co. v. Tasini (2001), 121 S.Ct. 2381, 533 U.S. 483, 150 L.Ed.2d 500, 69 U.S.L.W. 4567, 59 U.S.P.Q.2d 1001, 29 Media L. Rep. 1865 (U.S.S.C.) — followed

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Cases considered by *Abella J.*:

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CCH Canadian Ltd. v. Law Society of Upper Canada (2004), 236 D.L.R. (4th) 395, 317 N.R. 107, 30 C.P.R. (4th) 1, 2004 CarswellNat 446, 2004 CarswellNat 447, 2004 SCC 13, [2004] 1 S.C.R. 339, 247 F.T.R. 318 (note) (S.C.C.) — considered

Édutile Inc. v. Automobile Protection Assn. (APA) (2000), 255 N.R. 147, [2000] 4 F.C. 195, 188 D.L.R. (4th) 132, 2000 CarswellNat 744, 6 C.P.R. (4th) 211, 2000 CarswellNat 1258, (sub nom. *Édutile Inc. v. Automobile Protection Association*) 181 F.T.R. 160 (Fed. C.A.) — considered

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New York Times Co. v. Tasini (2001), 121 S.Ct. 2381, 533 U.S. 483, 150 L.Ed.2d 500, 69 U.S.L.W. 4567, 59 U.S.P.Q.2d 1001, 29 Media L. Rep. 1865 (U.S.S.C.) — considered

Slumber-Magic Adjustable Bed Co. v. Sleep-King Adjustable Bed Co. (1984), 3 C.P.R. (3d) 81, 1984 CarswellBC 765, [1985] 1 W.W.R. 112 (B.C. S.C.) — considered

Society of Composers, Authors & Music Publishers of Canada v. Canadian Assn. of Internet Providers (2004), (sub nom. *SOCAN v. Canadian Assn. of Internet Providers*) 240 D.L.R. (4th) 193, 2004 SCC 45, 2004 CarswellNat 1919,

2004 CarswellNat 1920, 322 N.R. 306, (sub nom. *Socan v. Canadian Assn. of Internet Providers*) [2004] 2 S.C.R. 427, (sub nom. *SOCAN v. Canadian Assn. of Internet Providers*) 32 C.P.R. (4th) 1 (S.C.C.) — referred to

Statutes considered by LeBel, Fish JJ.:

Copyright Act, R.S.C. 1985, c. C-42

Generally — considered

s. 2 "collective work" — considered

s. 2 "compilation" — considered

s. 2.1(2) [en. 1993, c. 44, s. 54] — considered

s. 3 — considered

s. 3(1) — considered

s. 5 — considered

s. 13(1) — considered

s. 13(3) — considered

s. 13(4) — considered

s. 13(7) — considered

Copyrights Act, 1997, 17 U.S.C.

s. 201(c) — referred to

Statutes considered by Abella J.:

Copyright Act, 1921, S.C. 1921, c. 24

s. 3 — referred to

Copyright Act, R.S.C. 1985, c. C-42

s. 3 — considered

s. 3(1) — considered

s. 13(3) — considered

Copyrights Act, 1997, 17 U.S.C.

s. 201(c) — referred to

Treaties considered by Abella J.:

Berne Convention for the Protection of Literary and Artistic Works, 1886, 828 U.N.T.S. 221

Generally — referred to

Article 9 — considered

WIPO Copyright Treaty, 1996, 36 I.L.M. 65

Generally — referred to

Article 1(4) — considered

APPEAL by plaintiff and CROSS-APPEAL by defendant from judgment reported at *Robertson v. Thomson Corp.* (2004), 34 C.P.R. (4th) 161, 2004 CarswellOnt 4015, 72 O.R. (3d) 481, 243 D.L.R. (4th) 257, 190 O.A.C. 231 (Ont. C.A.), dismissing plaintiff's appeal from judgment dismissing plaintiff's motion for summary judgment in action for damages for copyright infringement.

POURVOI de la demanderesse et POURVOI INCIDENT des défenderesses à l'encontre de l'arrêt publié *Robertson v. Thomson Corp.* (2004), 34 C.P.R. (4th) 161, 2004 CarswellOnt 4015, 72 O.R. (3d) 481, 243 D.L.R. (4th) 257, 190 O.A.C. 231 (C.A. Ont.), qui a rejeté le pourvoi de la demanderesse à l'encontre du jugement qui avait rejeté sa requête pour jugement sommaire à l'égard de son action en dommages-intérêts pour violation de son droit d'auteur.

LeBel, Fish JJ.:

I. Introduction

1 The central issue on this appeal is whether newspaper publishers are entitled as a matter of law to republish in electronic databases freelance articles they have acquired for publication in their newspapers — without compensation to the authors and without their consent. In our view, they are not. Their copyright over the newspapers they publish gives them no right to reproduce, otherwise than as part of *those* collective works — their newspapers — the freelance articles that appeared in them.

2 Pursuant to the *Copyright Act*, R.S.C. 1985, c. C-42, newspaper publishers own the copyright in their newspapers and have a right to reproduce a newspaper or a substantial part of that newspaper but do not have the right, without the consent of the author, to reproduce individual freelance articles. Info Globe Online and CPI. Q are vast electronic databases. They are compilations of individual articles presented outside the context of the collective work of which they were a part. The resulting collective work presented to the public is not simply the collective works joined together — it is a collective work of a different kind.

3 In our view, therefore, *The Globe and Mail* ("*Globe*") cannot republish freelance articles in the Info Globe Online or CPI. Q electronic databases. The right to reproduce a collective work under the *Copyright Act* does not carry with it the right to republish freelance articles as part of an entirely different collective work.

4 On the other hand, we believe the CD-ROMs are a valid exercise of the *Globe's* right to reproduce its collective work. The CD-ROMs can be viewed as collections of daily newspapers in a way that Info Globe Online and CPI. Q cannot.

5 For these reasons and the reasons set forth below, we would dismiss the appeal and dismiss the cross-appeal except with respect to the CD-ROMs.

II. Background

6 At its core, this case concerns the competing rights of freelance authors and newspaper publishers. The *Copyright Act* establishes a regime of layered rights. Freelance authors who write newspaper articles retain the copyright in their work while the publisher of the newspaper acquires a copyright in the newspaper.

7 It is undisputed that freelance authors have the right to reproduce their individual works. The extent and scope of a publisher's right to reproduce those same articles as part of its right to reproduce its newspaper is less clear.

8 Advancements in computer technology have drastically altered the newspaper reality. Newspapers, once synonymous with the printed word, can now be stored and displayed electronically. The electronic databases in question archive thousands

upon thousands of newspaper articles. Like a stream in constant flux, these databases are continuously growing and therefore changing. Search engines enable users to sift through these articles at lightning speed with the click of a mouse. These advancements, however, like most others, carry with them new challenges. One of these challenges is to evaluate the rights of newspaper publishers in this evolving technological landscape.

9 For well over a century, newspapers have archived back issues. Initially, as the motions judge observed, this was achieved by keeping them in a library — sometimes referred to in newspaper parlance as a "morgue". With the advent of microfilm and microfiche, past editions were archived using photographic imaging technology. Currently, newspapers are archived in electronic form. The subject electronic databases, however, do more than simply archive back issues.

10 The transfer of articles from their newspaper format and environment to Info Globe Online and CPI. Q, unlike the conversion to microfilm or microfiche, is no mere conversion of the newspaper from the print realm to the electronic world. As we will explain, the result is a different product that infringes the copyrights of freelance authors whose works appear in those databases. We begin with a review of the factual and judicial history.

III. Factual History

11 Heather Robertson is a freelance author. In 1995, she wrote two articles that were published in the *Globe*. One, a book excerpt, was the subject of a written agreement between the *Globe* and the publisher of Robertson's book; the other, a book review, was written under oral agreement with Robertson. Copyright was not addressed in either case. Subsequently, in 1996, it became the practice of the *Globe* to enter into written agreements with freelance authors expressly granting it certain electronic rights in freelance work. The agreement was later modified to expand the electronic rights clause. These agreements are not at issue in this case.

12 The *Globe* is one of Canada's leading national newspapers and has been produced in both print and electronic editions since the late 1970s. The named respondents on the appeal are: The Thomson Corporation, Thomson Canada Limited, Thomson Affiliates, Information Access Company and Bell GlobeMedia Publishing Inc., the current publisher of the *Globe* (collectively, the "Publishers").

13 Ms. Robertson objects to the presence of her articles in three databases: Info Globe Online, CPI.Q and the CD-ROMs (collectively, the "electronic databases"). The use of freelance articles in the daily internet edition of the *Globe* is not in issue before us.

14 Info Globe Online is a commercial database that has existed since April 1979, with stories going back to November 1977. It provides subscribers with access to stories from the *Globe* for a fee. It also allows subscribers to find articles in many other newspapers, news wire services, magazines and reference databases. Subscribers can search by key word and retrieve articles electronically. The subscriber may display, read, download, store, or print the articles.

15 CPI. Q is the electronic version of the Canadian Periodical Index. The Canadian Periodical Index indexes selected newspaper articles from various newspapers. It is available at libraries and is routinely used in research. In 1987, it became available electronically. CPI.Q is an enhanced form of the original index. It allows subscribers to search the electronic archives of indexed periodicals by key word and to retrieve articles electronically. Once an article is displayed it is possible to print it as well.

16 The CD-ROMs, each containing the *Globe* and several other Canadian newspapers from a calendar year, have been available since 1991. Users can navigate using search engines and retrieve and print articles. Notably, the content of the CD-ROM is fixed and finite and users are able to view a paper as a single day's edition.

17 The electronic databases all omit the advertisements, some tables, photographs, artwork, photo captions, birth and death notices, financial tables, weather forecasts and some design elements from the original print edition.

18 Robertson's action against the Publishers for copyright infringement was certified as a class action, with the class consisting of all contributors to the *Globe* other than those who died on or before December 31, 1943: *Robertson v. Thomson Corp.* (1999), 43 O.R. (3d) 161 (Ont. Gen. Div.), at p. 168. Robertson brought a motion for partial summary judgment and an injunction restraining the use of her works in the databases. She sought judgment for two individual class members: herself and Cameron Smith, a former employee of the *Globe*.

IV. Decisions Below

19 The motions judge found that the electronic databases reproduced "individual" articles and not the collective work of the newspapers.

20 The Publishers asserted a number of defences, including an implied contractual right or an implied licence to reproduce the articles. Robertson countered that such an implied license, to be valid, had to have been in writing. Cumming J. dismissed the motion for partial summary judgment on the grounds that there were genuine issues for trial: (2001), 15 C.P.R. (4th) 147 (Ont. S.C.J.).

21 Weiler J.A. wrote the majority decision for the Ontario Court of Appeal: (2004), 72 O.R. (3d) 481 (Ont. C.A.). She found that the motions judge had relied too heavily on *New York Times Co. v. Tasini*, 533 U.S. 483 (U.S.S.C. 2001), an American case. She also found that Cumming J. erred by attaching significance to the Publishers' creation of a different economic activity and by focussing excessively on the technological means of accessing the database using advanced search engines.

22 Weiler J.A. dismissed the cross-appeal nonetheless, concluding that neither the databases nor the CD-ROMs reproduced a substantial part of the *Globe*. She found that approximately half of the newspaper's content (the articles) was transferred to Info Globe Online daily. Quantitatively, that was a substantial part. Qualitatively, it was not. Applying a qualitative test, she found it necessary for both the selection and arrangement of the original collective work to be preserved if the collective work was to be reproduced.

23 Weiler J.A. found that when the individual articles are disentangled from the collective work they are not covered by the collective copyright because their arrangement within the collective work is lost. She further observed that the "form" and "function" of the new work were different. As to form, the *Globe* newspaper is limited to the events of the day, whereas Info Globe Online and CPI.Q are ever-expanding. With respect to function, *Globe* readers read the news, whereas users of Info Globe Online or CPI.Q research.

24 Weiler J.A. also dismissed the appeal. She found no error in the motions judge's conclusion that the grant of a non-exclusive license did not have to be in writing. She also agreed that Robertson did not have standing to assert a claim for injunctive relief on behalf of *Globe* staff writers.

25 Blair J.A. agreed that the appeal should be dismissed for the reasons given by Weiler J.A., but disagreed with her disposition of the cross-appeal. Blair J.A. framed the question by asking specifically "whether the electronic version of the *Globe* as found in the electronic archive [was] a reproduction of the collective work" (para. 131 (emphasis deleted)). He found that once an article is placed in the database as part of the collective work it is not relevant how it is located, deconstructed, identified, retrieved or displayed on screen.

26 Moreover, Blair J.A. noted that each article, when retrieved, showed clearly that it was from the *Globe* by referring to the date of the edition, its original page number, the section in which it was contained, whether it was accompanied by an illustration, its title or headline and the author's byline.

27 Blair J.A. also agreed with Weiler J.A.'s conclusion that the Publishers could place staff written articles in the electronic databases because employees have no right to restrain publication of their articles in a newspaper, magazine or similar periodical pursuant to s. 13(3) of the *Copyright Act*. According to Blair J.A., the "electronic version of the *Globe*", as found in the electronic databases, falls within the ambit of s.13(3).

V. Analysis

28 Two issues were raised on the cross-appeal: Whether the electronic databases infringed the right of (1) freelance authors; and (2) *Globe* staff writers. The appeal raises two other issues: (1) would a license from a freelance author specifically granting a publisher the right to republish his or her article in the electronic databases need to be in writing? and (2) does Robertson have standing to assert a claim on behalf of employees of the *Globe*?

29 We propose to deal first with the first issue on the cross-appeal since the bulk of argument related to that issue. We will then turn to the remaining issues.

A. Cross-Appeal: the Main Issue

30 Section 13(1) of the *Copyright Act* states: "Subject to this Act, the author of a work shall be the first owner of the copyright therein." And, s. 2.1(2) of the *Copyright Act* confirms that "[t]he mere fact that a work is included in a compilation does not increase, decrease or otherwise affect the protection conferred by this Act in respect of the copyright in the work". Accordingly, Robertson, as the author of her freelance works, is the owner of the copyright in those articles. The same is true for other freelance authors.

31 A publisher does not have any rights in freelance articles themselves but has another, distinct, copyright in the daily newspapers in which the freelance articles appear. Newspapers are included in the definition of "collective work" in accordance with s. 2 of the *Copyright Act*. A newspaper can also be characterized as a "compilation" pursuant to s. 2 of the *Copyright Act*, which defines "compilation" as a work resulting from "selection or arrangement". We are thus confronted with two different but overlapping copyrights.

32 Section 3(1) of the *Copyright Act* provides:

3.(1) For the purposes of this Act, "copyright", in relation to a work, means the sole right to produce or reproduce the work or any substantial part thereof in any material form whatever, ... and includes the sole right

(a) to produce, reproduce, perform or publish any translation of the work,

(b) in the case of a dramatic work, to convert it into a novel or other non-dramatic work,

(c) in the case of a novel or other non-dramatic work, or of an artistic work, to convert it into a dramatic work, by way of performance in public or otherwise,

(d) in the case of a literary, dramatic or musical work, to make any sound recording, cinematograph film or other contrivance by means of which the work may be mechanically reproduced or performed,

(e) in the case of any literary, dramatic, musical or artistic work, to reproduce, adapt and publicly present the work as a cinematographic work,

(f) in the case of any literary, dramatic, musical or artistic work, to communicate the work to the public by telecommunication,

(g) to present at a public exhibition, for a purpose other than sale or hire, an artistic work created after June 7, 1988, other than a map, chart or plan,

(h) in the case of a computer program that can be reproduced in the ordinary course of its use, other than by a reproduction during its execution in conjunction with a machine, device or computer, to rent out the computer program, and

(i) in the case of a musical work, to rent out a sound recording in which the work is embodied,

and to authorize any such acts.

33 Plainly, freelance authors have the right to reproduce, and authorize the reproduction of, their articles. Similarly, as the holders of the copyright in their newspapers, the Publishers are entitled to "produce or reproduce the work or any substantial part thereof in any material form whatever".

34 The real question then is whether the electronic databases that contain articles from the *Globe* reproduce the newspapers or merely reproduce the original articles. It is open to the Publishers to reproduce a substantial part of the collective work in which they have a copyright; it is a violation of the *Copyright Act* for the Publishers to reproduce, without consent, the individual works with respect to which an author owns the copyright. The answer to this question lies in the determination of whose "originality" is being reproduced: the freelance author's alone or the Publishers' as a collective work?: see *Allen v. Toronto Star Newspapers Ltd.* (1997), 36 O.R. (3d) 201 (Ont. Div. Ct.).

35 "Originality" is the foundation stone of copyright. Section 5 of the *Copyright Act* states that copyright shall subsist "in every original literary, dramatic, musical and artistic work". This was explained by McLachlin C.J., for the Court, in *CCH Canadian Ltd. v. Law Society of Upper Canada*, [2004] 1 S.C.R. 339, 2004 SCC 13 (S.C.C.):

For a work to be "original" within the meaning of the *Copyright Act*, it must be more than a mere copy of another work. At the same time, it need not be creative, in the sense of being novel and unique. What is required to attract copyright protection in the expression of an idea is an exercise of skill and judgment. [para. 16]

36 More specifically, McLachlin C.J. addressed originality as it relates to compilations - in that case, judicial decisions:

The reported judicial decisions, when properly understood as a *compilation* of the headnote and the accompanying edited judicial reasons, are "original" works covered by copyright. Copyright protects originality of *form* or expression. A compilation takes existing material and casts it in different form. The arranger does not have copyright in the individual components. However, the arranger may have copyright in the form represented by the compilation. "It is not the several components that are the subject of the copyright, but the over-all arrangement of them which the plaintiff through his industry has produced": *Slumber-Magic Adjustable Bed Co. v. Sleep-King Adjustable Bed Co.* (1984), 3 C.P.R. (3d) 81 (B.C.S.C.), at p. 84; see also *Ladbroke (Football) Ltd. v. William Hill (Football) Ltd.*, [1964] 1 All E.R. 465 (H.L.), at p. 469.

The reported judicial decisions here at issue meet the test for originality. The authors have arranged the case summary, catchlines, case title, case information (the headnotes) and the judicial reasons in a specific manner. The arrangement of these different components requires the exercise of skill and judgment. The compilation, viewed globally, attracts copyright protection. [Emphasis in original; paras. 33-34.]

37 Similarly, the Publishers have a copyright in their newspapers, each an original collection of different components reflecting the exercise of skill and judgment. Section 2 of the *Copyright Act*, as noted above, defines a compilation as an original work that is created as a result of selection or arrangement. This same conception of originality underlies the inclusion of the newspapers in the definition of collective work. We note that the use of the disjunctive "or" in s. 2 is significant. The *Copyright Act* does not require originality in both the selection and arrangement. Similarly, and with all due respect to Weiler J.A.'s contrary finding, we agree with the Publishers that a reproduction of a compilation or a collective work need not preserve *both* the selection and arrangement of the original work to be consistent with the Publisher's reproduction rights.

38 Section 3 of the *Copyright Act* provides the copyright owner with the right to reproduce a work *or* a substantial part thereof. It follows that a substantial part of a newspaper may consist only of the original selection so long as the essence of the newspaper is preserved, i.e., that which embodies the originality of the collective work that is capable of attracting copyright. In *Édutile Inc. v. Automobile Protection Assn. (APA)*, [2000] 4 F.C. 195 (Fed. C.A.), the Federal Court of Appeal stated:

To determine whether a "substantial part" of a protected work has been reproduced, it is not the quantity which was reproduced that matters as much as the quality and nature of what was reproduced....

It seems clear that APA appropriated a "substantial part", indeed the very essence, of Édutile's work ... [Emphasis added; paras. 22-23.]

39 There is much originality in a newspaper: the editorial content, the selection of articles, the arrangement of articles, the arrangement of advertisements and pictures, and the fonts and styles used. But the true essence of the originality in a newspaper is its editorial content. It is the selection of stories, and the stories themselves, that resonate in the hearts and minds of readers.

40 The task of determining whether this essence has been reproduced may be difficult. Indeed, it is largely a question of degree. At a minimum, however, the editorial content of the newspaper must be preserved and presented *in the context* of that newspaper.

41 We again agree with the Publishers that their right to reproduce a substantial part of the newspaper includes the right to reproduce the newspaper without advertisements, graphs and charts, or in a different layout and using different fonts. But it does not follow that the articles of the newspaper can be decontextualized to the point that they are no longer presented in a manner that maintains their intimate connection with the rest of that newspaper. In Info Globe Online and CPI. Q, articles from a given daily edition of the *Globe* are stored and presented in a database together with thousands of other articles from different periodicals and different dates. And, these databases are expanding and changing daily as more and more articles are added. These products are more akin to databases of individual articles rather than reproductions of the *Globe*. Thus, in our view, the originality of the freelance articles is reproduced; the originality of the newspapers is not.

42 The Publishers argue that the connection with the original newspaper is not lost in the databases because the articles in Info Globe Online and CPI. Q contain references to the newspaper they were published in, the date they were published and the page number where the article appeared. We do not share this view. Rather, we agree with the United States Supreme Court's finding in *Tasini* where the same argument was canvassed and rejected. Ginsburg J., for the majority, stated:

One might view the articles as parts of a new compendium — namely, the entirety of works in the Database. In that compendium, each edition of each periodical represents only a minuscule fraction of the ever-expanding Database. The Database no more constitutes a "revision" of each constituent edition than a 400-page novel quoting a sonnet in passing would represent a "revision" of that poem.... The massive whole of the Database is not recognizable as a new version of its every small part.

Alternatively, one could view the Articles in the Databases "as part of" no larger work at all, but simply as individual articles presented individually. That each article bears marks of its origin in a particular periodical (less vivid marks in NEXIS and NYTO, more vivid marks in GPO) suggests the article was *previously* part of that periodical. But the markings do not mean the article is *currently* reproduced or distributed as part of the periodical. The Databases' reproduction and distribution of individual Articles — simply *as individual Articles* — would invade the core of the Authors' exclusive rights under §106. [Footnote omitted, underlining added, italics in original; p. 500-501.]

43 Weiler J.A. correctly pointed out that caution must be adhered to when referencing *Tasini* in the Canadian context due to differences in the applicable governing legislation. Pursuant to the U.S. *Copyrights Act*, 17 U.S.C. §201(c) (2000), the publisher does not have a separate copyright in the collective work but has only the "privilege of reproducing and distributing the contribution as part of that particular collective work, any revision of that collective work, and any later collective work in the same series". Nonetheless, we find the reasoning in the foregoing passage, which simply describes the nature of the decontextualization that occurs in similar databases, compelling and applicable.

44 This decontextualization is critical to the disposition of this case. As Weiler J.A. observed, "In this vast storehouse of information, the collective work that is the *Globe* is fragmented, submerged, overwhelmed and lost" (para. 82). In our view, date and page references do not change this — they merely provide historical information, as the U.S. Supreme Court observed.

45 The Publishers also argue that the Court should focus on *input* rather than *output*. This was also the view of Blair J.A. in his dissenting opinion. According to this reasoning, a substantial part of the print edition of each day's *Globe* (excluding pictures, advertisements, tables and charts) is stored in an electronic file. Blair J.A. found that this electronic data, *input* into the databases, which represents the electronic reproduction of the print daily. He therefore concluded that the electronic file contains the editorial content of the newspaper and is therefore a "reproduction" within the meaning of s. 3(1) of the *Copyright Act*, regardless of what use it is put to afterwards.

46 With respect, we believe this approach prematurely terminates the analysis. And the manner in which Blair J.A. framed the question — by asking whether the *electronic version* of the *Globe* in the electronic databases is a reproduction of the *Globe* — presupposes an answer in favour of the Publishers. It is not the electronic data that is presented to the public but the finished product, i.e., the databases. We cannot avoid comparing the original collective work with the finished collective work when determining whether there has been a reproduction. As Megarry V.C., put it in *Thrusteode Ltd. v. W.W. Computing Ltd.*, [1983] F.S.R. 502, cited with approval by Mahoney J.A. in *Apple Computer Inc. v. Mackintosh Computers Ltd.* (1987), [1988] 1 F.C. 673 (Fed. C.A.), aff'd [1990] 2 S.C.R. 209 (S.C.C.): "For computers, as for other things, what must be compared are the thing said to have been copied and the thing said to be an infringing copy" (p. 505).

47 Viewed "globally", to use the language of this Court in *CCH*, Info Globe Online and CPI. Q are different selections than the selections that they incorporate. They are compilations of individual articles presented outside of the context of the original collective work from where they originated. The resulting collective work presented to the public is not simply each of the collective works joined together — it has become a collective work of a different nature.

48 To be clear, this analysis is not predicated on the ability of a user to search by key word. We agree with both Weiler J.A. and Blair J.A. that the search mechanism which enables a user to isolate individual articles is not determinative. The focus of our analysis firmly remains on what the *Globe* presents to the user; not on how the user makes use of it. In this sense, the input/output dichotomy is misleading. Moreover, we are mindful of the principle of media neutrality under the *Copyright Act* and agree that the principle precludes a finding of copyright infringement merely because it is possible to search with more efficient tools than in the past. That being said, focussing exclusively on input in the name of media neutrality takes the principle too far and ultimately, turns it on its head.

49 Media neutrality is reflected in s. 3(1) of the *Copyright Act* which describes a right to produce or reproduce a work "in any material form whatever". Media neutrality means that the *Copyright Act* should continue to apply in different media, including more technologically advanced ones. But it does not mean that once a work is converted into electronic data anything can then be done with it. The resulting work must still conform to the exigencies of the *Copyright Act*. Media neutrality is not a license to override the rights of authors — it exists to protect the rights of authors and others as technology evolves.

50 Recent developments in international agreements on copyright have not changed these principles. On the contrary, they recognize and apply them.

51 Notwithstanding the foregoing, we part ways with Weiler J.A. regarding the CD-ROMs. In our view, the CD-ROMs are a valid exercise of the *Globe's* right to reproduce its collective works (or a substantial part thereof) pursuant to s. 3(1) of the *Copyright Act*. The CD-ROMs, like Info Globe Online and CPI.Q, do not contain advertisements, pictures or colour and are presented in a different medium and format than the print edition. The critical distinction, however, is that the CD-ROMs preserve the linkage to the original daily newspaper.

52 The user of the CD-ROM is presented with a collection of daily newspapers which can be viewed separately. When viewing an article on CD-ROM after searching for a particular edition, the other articles from that day's edition appear in the frame on the right hand side of the screen. To pass muster, a reproduction does not need to be a replica or a photographic copy. But it does need to remain faithful to the essence of the original work. And, in our view, the CD-ROM does so by offering users, essentially, a compendium of daily newspaper editions.

53 In our view, the fact that the CD-ROM includes other newspapers is not fatal. The essential characteristic of the newspaper is not lost when it is presented together on a CD with a discrete number of other newspapers, each of which is viewable as a separate and distinct paper. Moreover, as we indicated above, the ability to search by key word does not make the CD-ROM reproduction any less of a reproduction.

B. The Remaining Issues

54 Section 13(4) of the *Copyright Act* provides:

13. ...

(4) The owner of the copyright in any work may assign the right, either wholly or partially, and either generally or subject to limitations relating to territory, medium or sector of the market or other limitations relating to the scope of the assignment, and either for the whole term of the copyright or for any other part thereof, and may grant any interest in the right by license, but no assignment or grant is valid unless it is in writing signed by the owner of the right in respect of which the assignment or grant is made, or by the owner's duly authorized agent.

55 Section 13(7) of the *Copyright Act* states:

13. ...

(7) For greater certainty, it is deemed always to have been the law that a grant of an exclusive license in a copyright constitutes the grant of an interest in the copyright by license.

56 We are satisfied that Weiler J.A. was correct in concluding that only an exclusive license must be in writing. If Parliament intended for any type of non-exclusive license to be deemed a "grant of an interest" requiring a written contract, it could have explicitly provided so just as it did for exclusive licenses in s. 13(7). In our view, the following passage from the Ontario Superior Court of Justice decision in *Ritchie v. Sawmill Creek Golf & Country Club Ltd.* (2004), 35 C.P.R. (4th) 163 (Ont. Div. Ct.), correctly states the matter:

The "grant of an interest" referred to in s.13(4) is the transfer of a property right as opposed to a permission to do a certain thing. The former gives the licensee the capacity to sue in his own name for infringement, the latter provides only a defence to claims of infringement. To the extent there was any uncertainty as to the meaning of "grant of an interest" and whether this section applied to non-exclusive licenses, the issue was resolved in 1997 when the *Copyright Act* was amended to include s. 13(7)... [para. 20]

57 There was conflicting evidence before the motions judge regarding the scope of such an alleged implied license. The content of these licenses is a live issue that should go to trial, as ordered by the motions judge.

58 If it is determined that freelance authors have in fact impliedly licensed the *Globe* the right to republish their articles in the electronic databases, this decision will, of course, be of less practical significance. Parties are, have been, and will continue to be, free to alter by contract the rights established by the *Copyright Act*.

59 With respect to the second issue on the appeal, we find that employees of the *Globe*, including Cameron Smith, should not have been certified as members of the class because they have no cause of action.

60 In a class action, the class definition must be supported by a statement of claim that includes one or more causes of action applicable to each class member. The class definition in the present case does not distinguish between freelance authors and staff writers. The rights of each, however, are fundamentally different.

61 Section 13(3) of the *Copyright Act* states:

13. ...

(3) Where the author of a work was in the employment of some other person under a contract of service or apprenticeship and the work was made in the course of his employment by that person, the person by whom the author was employed shall, in the absence of any agreement to the contrary, be the first owner of the copyright, but where the work is an article or other contribution to a newspaper, magazine or similar periodical, there shall, in the absence of any agreement to the contrary, be deemed to be reserved to the author a right to restrain the publication of the work, otherwise than as part of a newspaper, magazine or similar periodical.

62 When a staff member writes an article for a newspaper, magazine or similar periodical during the course of his or her employment, s. 13(3) of the *Copyright Act* provides that copyright vests with the employer while the employee is given a right to restrain publication of the work (other than in a newspaper, magazine or similar periodical). Thus, even when freelance authors have a cause of action for copyright infringement, staff writers have no cause of action unless they previously exercised their right to restrain publication. In this case, Cameron Smith never attempted to restrain publication of his articles. And, no evidence was introduced indicating that other staff members exercised such a right.

63 It is therefore unnecessary for the purposes of this case to determine whether the electronic databases constitute "newspaper[s], magazine[s] or similar periodical[s]" within the meaning of s. 13(3) of the *Copyright Act*. We have already found that Info Globe Online and CPI.Q do not constitute reproductions of a substantial part of the underlying print newspapers because they are works of a different nature. Without so deciding, it follows, we believe, for essentially the same reasons, that these same databases cannot be characterized as newspapers, magazines or similar periodicals for purposes of s. 13(3).

VI. Disposition

64 For the foregoing reasons, we would dismiss the appeal and allow the cross-appeal with respect to the CD-ROMs only. Taking into account all of the circumstances and the mitigated result, the parties should bear their own costs in this Court.

Abella J.:

65 The basic right of every copyright holder, according to s. 3(1) of the *Copyright Act*, R.S.C. 1985, c. C-42, is to "produce or reproduce the work or any substantial part thereof in any material form whatever".

66 At issue in this appeal are online databases into which the publishers place all articles selected by them for inclusion in each day's edition of their newspapers. An article's date, page and headline in the printed version of those newspapers appear on every article.

67 I agree with LeBel and Fish JJ. that the appeal should be dismissed and that the cross-appeal should be allowed in connection with the CD-ROM issue. I have a different view, with respect, of the application of the *Copyright Act* to Info Globe Online and CPI. Q and would allow the cross-appeal in connection with them as well. In my view, these databases reproduce a "substantial part" of the publishers' "work", and are, as a result, within the right of reproduction conferred by s. 3(1) of the Act. It follows that the employees cannot restrain publication of their individual works in those databases under s. 13(3) since that publication continues to be "part of a newspaper, magazine or similar periodical".

Analysis

68 Section 3 of the *Copyright Act* has remained substantially unchanged since it was first introduced in 1921: see S.C. 1921, c. 24, s. 3. It was promulgated a year after the Westinghouse Electric and Manufacturing Company released the first domestic radio sets, and many decades before the technological revolution that produced, among other innovations, online databases.

69 This Court has repeatedly held that the overarching purposes of the *Copyright Act* are twofold: promoting the public interest in the encouragement and dissemination of artistic and intellectual works, and justly rewarding the creator of the work. See *Galerie d'art du Petit Champlain inc. c. Théberge*, [2002] 2 S.C.R. 336, 2002 SCC 34 (S.C.C.), at para. 30; *CCH Canadian Ltd. v. Law Society of Upper Canada*, [2004] 1 S.C.R. 339, 2004 SCC 13 (S.C.C.), at para. 23; and *Society of Composers, Authors & Music Publishers of Canada v. Canadian Assn. of Internet Providers*, [2004] 2 S.C.R. 427, 2004 SCC 45 (S.C.C.) ("*SOCAN*"),

at para. 40. Since these purposes are often in opposition to each other, courts "should strive to maintain an appropriate balance between those two goals": J. S. McKeown, *Fox on Canadian Law of Copyright and Industrial Designs* (4th ed. (loose-leaf.)), at pp. 1-13.

70 The public interest is particularly significant in the context of archived newspapers. These materials are a primary resource for teachers, students, writers, reporters, and researchers. It is this interest that hangs in the balance between the competing rights of the two groups of creators in this case, the authors and the publishers.

71 The aftermath of the litigation in *New York Times Co. v. Tasini*, 533 U.S. 483 (U.S.S.C. 2001), is instructive. Freelance authors had sued the New York Times for copyright infringement arising out of the inclusion of articles written by them in online databases. They were successful. The New York Times Co.'s response was to remove all of the affected articles from its online databases: D. P. Bickham, "Extra! Can't Read All About It: Articles Disappear After High Court Rules Freelance Writers Taken Out of Context In *New York Times Co. v. Tasini*" (2001), 29 *W. St. U. L. Rev.* 85, at p. 102. Its response is not surprising, since "[t]he economic calculus runs sharply in favor of deletion", with publishers having "virtually no economic upside to retaining freelance articles in the electronically available archived editions, and substantial economic downside": C. S. Sims and M. J. Morris, "*Tasini* and Archival Electronic Publication Rights of Newspapers and Magazines" (2001), 18:4 *Comm. Law.* 9, at p. 15.

72 The detrimental impact of such a ruling may be even more profound in Canada since, under s. 13(3) of the *Copyright Act*, the publisher's employees have the right to prevent republication of their articles in online databases if those databases are found not to be a "newspaper". In my view, such a ruling is not mandated by the Act. The publishers own the copyright in their newspaper which, for purposes of the *Copyright Act*, is a "collective work". A newspaper is also a "compilation", which is defined by the Act to include "a work resulting from the selection or arrangement of data". The key is in the disjunctive. Either the selection *or* the arrangement of data is sufficient to constitute a copyrighted "work".

73 The most fundamental right conferred by the publisher's copyright is the right to produce *and reproduce* the copyrighted work. Copyright in relation to a work, as described in s. 3, means "the sole right to produce or reproduce the work or any substantial part thereof in any material form whatever". The right contains two key features. The first is that in Canada, unlike the narrower privilege conferred under the American *Copyrights Act*, 17 U.S.C. § 201(c) (2000), the holder of the copyright may reproduce not only the work, but also a "substantial part thereof".

74 The second is that, like its American counterpart, Canada's *Copyright Act* is media neutral: the right is to reproduce the work in "any material form whatever". Those are the words that inform the concept of "media neutrality". The publisher's right to contribute to the online databases at issue here stands or falls on the meaning of those words.

75 The concept of media neutrality is how Parliament chose to come to grips with potential technological developments. On its face, the media neutrality protection found in s. 3(1) is a simple concept. As Gonthier J. pointed out in *Galerie d'art du Petit Champlain inc.*, s. 3(1) offers "an appropriate and carefully worded recognition that a work may be reproduced *even if* the new medium is different" (para. 148 (emphasis in original)).

76 The words "any material form whatever" in s. 3(1) should be taken to mean what they say: the author's exclusive right to reproduce a "substantial part" of a copyrighted work is not limited by changes in form or output made possible by a new medium. A media neutral *Copyright Act* ensures that such transformations in form do not erode the content of the copyright protection: see *Apple Computer Inc. v. Mackintosh Computers Ltd.* (1986), [1987] 1 F.C. 173 (Fed. T.D.), at p. 33, judgment subsequently aff'd [1990] 2 S.C.R. 209 (S.C.C.).

77 Under a media neutral *Copyright Act*, mere visual comparison of the work and the item said to be a reproduction of that work may be deceptive. The conversion of a work from one medium to another will necessarily involve changes in the work's visual appearance, but these visual manifestations do not change the content of the right.

78 As Binnie J. discussed in *Galerie d'art du Petit Champlain inc.*, at para. 47, the *Copyright Act's* understanding of the right to reproduce is not limited to "only literal physical, mechanical reproduction", and the concept of reproduction has broadened

to recognize that "technologies have evolved by which expression could be reproduced in ways undreamt of in earlier periods, such as evanescent and 'virtual' copies in electronic formats".

79 The *Copyright Act* was designed to keep pace with technological developments to foster intellectual, artistic and cultural creativity. In applying the *Copyright Act* to a realm that includes the Internet and the databases at issue in this case, courts face unique challenges, but in confronting them, the public benefits of this digital universe should be kept prominently in view. As Professor Michael Geist observes:

The Internet and new technologies have unleashed a remarkable array of new creativity, empowering millions of individuals to do more than just consume our culture, instead enabling them to actively and meaningfully participate in it.

(M. Geist, *Our Own Creative Land: Cultural Monopoly & The Trouble With Copyright* (2006), at p. 9)

80 The source of every copyright, as this Court discussed in *CCH*, subsists in a work as long as it is "original". Regardless of whether the work in question is individual or collective, the inquiry into whether a work has been reproduced for purposes of s. 3 must focus on whether the "originality" that conferred copyright in relation to that work has been preserved in what is said to be a reproduction.

81 In *CCH*, originality was held to encompass the exercise of "skill and judgment" by an author: see para. 16. Every copyrighted work — individual or collective — is the product of the exercise of skill and judgment. In determining, therefore, whether a work like a newspaper, or "any substantial part thereof", has been reproduced, what will be determinative is the extent to which the item said to be a reproduction contains within it, in qualitative rather than quantitative terms, a substantial part of the skill and judgment exercised by the creator of the work: see *Édutile Inc. v. Automobile Protection Assn. (APA)*, [2000] 4 F.C. 195 (Fed. C.A.), at para. 22.

82 The right of reproduction adheres equally to the benefit of authors of individual works and to those of collective works or compilations. In considering the publisher's right of reproduction, the majority says that the line between the rights of individual authors and the rights of authors of collective works should be drawn on the basis of whose originality is being reproduced. This suggests that the databases in question reproduce only one group's originality. This, with respect, seems to me to contradict the essence of collective works and compilations, which inherently contain the "originality" of both the authors of individual works as well as of the creator of the collective work or compilation. Any reproduction of a collective work will necessarily involve the reproduction of *both* sets of originality.

83 Yet this does not bar the creator of a collective work, such as a newspaper, from reprinting the newspaper. On the contrary, creators of collective works, like authors of individual works, have the "sole right" under s. 3 to produce and reproduce their works, which in the case of the former will necessarily include the originality of contributing authors: see, for example, *Allen v. Toronto Star Newspapers Ltd.* (1997), 36 O.R. (3d) 201 (Ont. Div. Ct.). This continuing right of use of the individual authors' originality creates no unfairness to those authors since, as McLachlin J. observed in *Slumber-Magic Adjustable Bed Co. v. Sleep-King Adjustable Bed Co.* (1984), 3 C.P.R. (3d) 81 (B.C. S.C.), at pp. 84-85, the ability to produce a collective work in the first place depends on the individual authors' authorization to use the materials that form the compilation.

84 In the context of a collective work, the question is whether the author of a collective work or compilation has reproduced the work, or a "substantial part" of the work, accepting that doing so will necessarily involve substantial reproduction of the "originality" of individual authors. Framing the issue, as the majority does, as "whether newspaper publishers are entitled ... to republish in electronic databases freelance articles they have acquired for publication in their newspapers" (para. 1), presupposes the conclusion that the publishers have "republis[hed] ... freelance articles", rather than the collective work — the newspaper — over which they unquestionably have a right of reproduction.

85 If the publishers were to convert every article from a given day's edition into electronic form by placing each article in its own electronic file, marking each electronic article with its page and date of appearance, and transferring all of those files onto a disk or attaching them all to an e-mail, the resulting bundle of electronic articles would clearly constitute an electronic reproduction of "any substantial part [of that day's newspaper] in any material form whatever".

86 If media neutrality is to have any meaning, it must permit the publishers to convert their daily print edition into electronic form. The means by which the publishers do so is to remove advertisements, photographs, and other aspects of the arrangement of the articles from the newspaper, then place each article in its own electronic file. Each story is dated and includes a section, page number, headline and by-line, and is identified as appearing in *The Globe and Mail*.

87 Ms. Robertson concedes that the electronic daily edition in existence in 1995 does not infringe the copyright held by individual freelance authors. In substance, there is no difference between the actual electronic daily edition and a bundle of electronic articles from a given day's paper (each in their own file). Because both contain every article selected by the editors for inclusion in the newspaper, and because the text of every article in the electronic edition is as it appears in the newspaper, the skill and judgment of the newspaper's editors exercised in selecting and editing the articles are fully contained in either form of electronic reproduction.

88 Whether it is presented in an e-mail as an "electronic daily edition", or consists of a bundle of files on a disk, this electronic edition contains a substantial part of the skill and judgment exercised by the publishers in creating that day's newspaper. It is a reproduction of the print edition in electronic form. That is precisely what media neutrality protects. As discussed by Stevens J. in his compelling dissent in *Tasini* :

No one doubts that the New York Times has the right to reprint its issues in Braille, in a foreign language, or in microform, even though such revisions might look and feel quite different from the original. Such differences, however, would largely result from the different medium being employed. Similarly, the decision to convert the single collective work newspaper into a collection of individual ASCII files can be explained as little more than a decision that reflects the different nature of the electronic medium. Just as the paper version of the New York Times is divided into "sections" and "pages" in order to facilitate the reader's navigation and manipulation of large batches of newsprint, so too the decision to subdivide the electronic version of that collective work into individual article files facilitates the reader's use of the electronic information. The barebones nature of ASCII text would make trying to wade through a single ASCII file containing the entire content of a single edition of the New York Times an exercise in frustration. [Footnote omitted; pp. 512-13.]

89 Given how unwieldy it would be to view an entire newspaper as a single stream of electronic text, the individual article provides the "logical unit" by which to divide the newspaper into manageable pieces: *Tasini*, per Stevens J., at p. 513, fn. 9. There is, consequently, nothing colourable about the publishers' decision to use individual articles as the more practical and more easily accessible unit of organization for an electronic version.

90 The analysis is unchanged if a number of these hypothetical electronic editions are collected together. This is simply the electronic analogy to stacking print editions of a newspaper on a shelf.

91 Having concluded that a collection of electronic articles from one day's edition of the newspaper constitutes a reproduction of that day's newspaper, I have difficulty seeing how the integration of the electronic reproduction into a database containing similarly organized versions of other periodicals causes the electronic version to lose its character as a reproduction of a newspaper and, correspondently, to lose its protection under s. 3.

92 The ultimate question to be asked is whether the database contains a reproduction of a substantial part of the skill and judgment exercised by the publishers in creating the newspaper. If an "electronic edition" reproduces the publishers' skill and judgment and is, on that basis, a reproduction of the publishers' newspaper, there is no reason why the nature of the database in which the electronic editions are housed should change the designation and character of those editions. This too was addressed by Stevens J. in *Tasini* :

A microfilm of the New York Times for October 31, 2000, does not cease to be a revision of that individual collective work simply because it is stored on the same roll of film as other editions of the Times or on a library shelf containing hundreds of other microfilm periodicals. Nor does § 201(c) compel the counterintuitive conclusion that the microfilm version of the Times would cease to be a revision simply because its publishers might choose to sell it on rolls of film that contained a year's editions of both the New York Times and the Herald-Tribune. Similarly, the placement of our

hypothetical electronic revision of the October 31, 2000, New York Times within a larger electronic database does nothing to alter either the nature of our original electronic revision or the relationship between that revision and the individual articles that exist as "part of" it. [Emphasis in original; pp. 517-18.]

93 The database is, as Blair J.A. described it, better seen as an electronic archive, "just as a traditional library consists of a collection of books, newspapers, journals, periodicals and a plethora of printed materials" (para. 149). As he rightly observed, "[n]o one suggests ... that a library must be a newspaper before the copyright of a newspaper publisher in the newspapers found in the library is protected" (para. 149). The loss of "context" emphasized by the majority underlines the form, not the substance, of the databases, and, in my respectful view, is, as a result, inconsistent with the media neutral approach mandated by s. 3 of the *Copyright Act*.

94 This conclusion is reinforced by international copyright treaties to which Canada is a party, and which elaborate on the principle of media neutrality. In interpreting the *Copyright Act's* application to new technologies, it is instructive to examine these treaties, including the *Berne Convention for the Protection of Literary and Artistic Works* (1886) and the *WIPO Copyright Treaty* (1996), CRNR/DC/94: see *Galerie d'art du Petit Champlain inc.*, at para. 71, and *SOCAN*, at para. 97.

95 Article 9 of the *Berne Convention* guarantees authors a right of reproduction of works "in any manner or form", which the *WIPO Guide to the Copyright and Related Rights Treaties Administered by WIPO and Glossary of Copyright and Related Rights Terms* (2003), at p. 55, develops as follows:

BC9.6. The text of the Berne Convention does not contain any complete and explicit definition of "reproduction". Certain elements of the concept of reproduction may, however, be identified in it. A good example is the clarification offered in Article 9(3) [sound or visual recordings deemed to be reproductions] ... which makes it obvious that it is not a condition that, on the basis of the reproduction, the copy of the work be directly perceivable; it is sufficient if the reproduced work may be made perceivable through appropriate equipment. (See also *Apple Computer*, F.C.T.D., at para. 81.)

96 Applying the WIPO Guide language to the newspaper context, "the work" is the publisher's exercise of skill and judgment in selecting and editing the articles included in the newspaper. The entirety of the publishers' newspapers, minus certain arrangement features, remains "perceivable", as opposed to visually replicated, in the database because every article selected and edited by the publishers is contained in the database and marked as such.

97 That there is no loss of copyright by virtue of reproduction in digital storage form, such as databases, is further confirmed by an Agreed Statement concerning Art. 1(4) of the WIPO Treaty which is set out in a footnote to that article:

The reproduction right, as set out in Article 9 of the Berne Convention, and the exceptions permitted thereunder, fully apply in the digital environment, in particular to the use of works in digital form. It is understood that the storage of a protected work in digital form in an electronic medium constitutes a reproduction within the meaning of Article 9 of the Berne Convention.

Just as individual authors do not lose copyright in their articles by virtue of their inclusion in an electronic database, newspaper publishers do not lose their right to reproduce their newspaper, including the articles that comprise it, by doing the same.

98 The fact that the actual newspaper page is not fully or identically reproduced in the database, and the articles are therefore presented in a different form from a *paper* newspaper, is irrelevant. It is not the physical manifestation of the work that governs, it is whether the product perceivably reproduces the exercise of skill and judgment by the publishers that went into the creation of the work.

99 The argument that, in order to remain within their right of reproduction, the publishers must enter the entirety of each newspaper into the database as an unwieldy stream of continuous text, rather than permitting each article to be viewed separately, finds no conceptual home in the *Copyright Act*. So long as a "substantial part" of the work is ultimately reproduced, the publisher's entitlement under our media neutral *Copyright Act* is to be able to adjust the form of its work to suit the exigencies of new media technologies.

100 The exercise of skill and judgment producing the work — the newspaper — namely, the selection, editing and arrangement of articles, is what gives rise to the publishers' copyright in the work. The databases reproduce fully both the publishers' selection and editing of the articles appearing in the newspaper, as well as some of the arrangement. This being the case, the databases reproduce the newspaper. In my view, any difference between the print and database versions of the newspaper is attributable to the digital "form" alone, and thus does not detract from the publisher's right to reproduce its newspaper in the online databases.

101 I would therefore dismiss the appeal, allow the cross-appeal, and dismiss the class action.

Appeal dismissed, cross-appeal allowed in part, MCLACHLIN C.J., BINNIE, ABELLA and CHARRON JJ., dissenting in part on the cross-appeal.

Appeal dismissed; cross-appeal allowed in part.

Pourvoi rejeté; pourvoi incident accueilli en partie.

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Tab 13

2005 Comp. Trib. 6
Competition Tribunal

Robinson Motorcycle Ltd. v. Fred Deeley Imports Ltd.

2005 CarswellNat 7853, 2005 Comp. Trib. 6, [2005] C.C.T.D. No. 36

IN THE MATTER OF the Competition Act, R.S.C. 1985, c. C-34; AND IN THE MATTER OF an application by Robinson Motorcycle Limited for an order pursuant to section 103.1 of the Competition Act, R.S.C. 1985, c. C-34, granting leave to bring an application under section 75 of the Act. BETWEEN: Robinson Motorcycle Limited (applicant) and Fred Deeley Imports Ltd. (respondent)

Presiding Member: Simpson J. (Chairperson)

Judgment: February 15, 2005
Docket: CT2004007

Counsel: for the applicant: Robinson Motorcycle Limited
Myron W. Shulgan, Q.C. Kristina Savi-Mascaro
for the respondent: Fred Deeley Imports Ltd.
R. Seumas M. Woods Christopher Hersh Matthew Horner

Subject: Corporate and Commercial

Per curiam:

REASONS FOR ORDER GRANTING LEAVE

1 Further to a decision of the Federal Court of Appeal dated November 23, 2004, these are the reasons for my order of July 16, 2004 granting the applicant leave to apply to the Competition Tribunal (the "Tribunal").

2 Robinson Motorcycle Limited (the "Applicant") applied to the Tribunal, pursuant to section 103.1 of the *Competition Act*, R.S.C. 1985, c. C-34 (the "Act"), for leave to bring an application under section 75 of the Act. It sought an order requiring Fred Deeley Imports Limited (the "Respondent") to continue to deal with the Applicant on usual trade terms.

3 The Applicant is a motorcycle dealership in Wheatley, Ontario. The Applicant has been a Harley-Davidson dealer for twenty-seven years and has been an exclusive dealer since 1990.

4 The Respondent is the sole supplier of Harley-Davidson motorcycles and related products to Harley-Davidson dealers in Canada. By letter dated January 16, 2004, the Respondent terminated the Applicant's dealership agreement as of July 31, 2004.

5 Section 103.1 (7) of the Act sets out the test for leave on an application under section 75 of the Act. It reads:

103.1(7) The Tribunal may grant leave to make an application under section 75 or 77 if it has reason to believe that the applicant is directly and substantially affected in the applicants' business by any practice referred to in one of those sections that could be subject to an order under that section.

103.1(7) Le Tribunal peut faire droit à une demande de permission de présenter une demande en vertu des articles 75 ou 77 s'il a des raisons de croire que l'auteur de la demande est directement et sensiblement gêné dans son entreprise en raison de l'existence de l'une ou l'autre des pratiques qui pourraient faire l'objet d'une ordonnance en vertu de ces articles.

6 Given the language of the above section, I must only be satisfied on this application for leave that the Respondent's practices "could" be the subject of an order under section 75. This a low threshold.

7 Section 75(1) of the Act reads:

75. (1) Where, on application by the Commissioner or a person granted leave under section 103.1, the Tribunal finds that

(a) a person is substantially affected in his business or is precluded from carrying on business due to his inability to obtain adequate supplies of a product anywhere in a market on usual trade terms,

(b) the person referred to in paragraph (a) is unable to obtain adequate supplies of the product because of insufficient competition among suppliers of the product in the market,

(c) the person referred to in paragraph (a) is willing and able to meet the usual trade terms of the supplier or suppliers of the product,

(d) the product is in ample supply, and

(e) the refusal to deal is having or is likely to have an adverse effect on competition in a market,

the Tribunal may order that one or more suppliers of the product in the market accept the person as a customer within a specified time on usual trade terms unless, within the specified time, in the case of an article, any customs duties on the article are removed, reduced or remitted and the effect of the removal, reduction or remission is to place the person on an equal footing with other persons who are able to obtain adequate supplies of the article in Canada.

75. (1) Lorsque, à la demande du commissaire ou d'une personne autorisée en vertu de l'article 103.1, le Tribunal conclut :

a) qu'une personne est sensiblement gênée dans son entreprise ou ne peut exploiter une entreprise du fait qu'elle est incapable de se procurer un produit de façon suffisante, où que ce soit sur un marché, aux conditions de commerce normales;

b) que la personne mentionnée à l'alinéa a) est incapable de se procurer le produit de façon suffisante en raison de l'insuffisance de la concurrence entre les fournisseurs de ce produit sur ce marché;

c) que la personne mentionnée à l'alinéa a) accepte et est en mesure de respecter les conditions de commerce normales imposées par le ou les fournisseurs de ce produit;

d) que le produit est disponible en quantité amplement suffisante;

e) que le refus de vendre a ou aura vraisemblablement pour effet de nuire à la concurrence dans un marché,

le Tribunal peut ordonner qu'un ou plusieurs fournisseurs de ce produit sur le marché en question acceptent cette personne comme client dans un délai déterminé aux conditions de commerce normales à moins que, au cours de ce délai, dans le cas d'un article, les droits de douane qui lui sont applicables ne soient supprimés, réduits ou remis de façon à mettre cette personne sur un pied d'égalité avec d'autres personnes qui sont capables de se procurer l'article en quantité suffisante au Canada.

8 With regard to the factors in section 75, I have concluded the following:

(a) Given its exclusive reliance on the sale of Harley-Davidson products since 1990, I find that the Competition Tribunal could conclude that the Applicant's business is substantially affected by the termination of its longstanding arrangements as an exclusive Harley-Davidson dealer;

(b) The Respondent acknowledges that it is the sole supplier of Harley-Davidson motorcycles and related products in Canada. The Applicant submits that Harley-Davidson products have a "mystique" and are of such a unique character that other brands are not substitutes. The Respondent argues to the contrary. However, I find that the Competition Tribunal could conclude that Harley-Davidson products are separate products and that the Applicant is unable to obtain adequate supply because the Respondent has refused to supply and has no competitors;

(c) It is the uncontradicted evidence of the Applicant that it has never acted in a manner which would give the Respondent cause to terminate the dealership agreement, that it has had above average sales that have steadily increased since 2000 and that it has always been able to meet all the Respondent's usual trade terms. Given this evidence, I find that the Competition Tribunal could conclude that the Applicant is willing and able to meet the Respondent's usual terms;

(d) I have examined the documents submitted by the Respondent regarding sales and market shares. They show that Harley-Davidson products are widely sold. Given this fact and the Respondent's historical ability to supply the Applicant, I find that the Competition Tribunal could conclude that Harley-Davidson motorcycles and related products are in ample supply;

(e) On this topic, I find that the Tribunal could conclude (i) that the counties of Essex and Kent constitute a geographic market on the basis that sales are linked to a need for a convenient service, (ii) that Harley-Davidson motorcycles, related products and service constitute one or more product markets and (iii) that the elimination of the Applicant's business, which is the only full line competitor for the exclusive Harley-Davidson dealer in Windsor, Ontario, could have an adverse effect on competition.

9 For these reasons, I concluded that the Tribunal "could" make an order requiring the Respondent to supply the Applicant. Accordingly, leave was granted on July 16,2004.

Tab 14

2013 CAF 225, 2013 FCA 225
Federal Court of Appeal

Tremblay c. Orio Canada Inc.

2013 CarswellNat 3483, 2013 CarswellNat 6907, 2013 CAF
225, 2013 FCA 225, 243 A.C.W.S. (3d) 711, 456 N.R. 144

Doris Tremblay, Appellant and Orio Canada Inc., Respondent

Marc Noël J.A., Johanne Trudel J.A., Robert M. Mainville J.A.

Heard: September 9, 2013
Judgment: September 25, 2013
Docket: A-86-13

Proceedings: Affirmed, 2013 CarswellNat 1145, 2013 CarswellNat 173, 230 A.C.W.S. (3d) 850, [2014] 3 F.C.R. 404, (sub nom. *Tremblay v. Orio Canada*) 426 F.T.R. 148 (Eng.), [2013] F.C.J. No. 105, [2013] A.C.F. No. 105, 2013 FC 109, 2013 CF 109 (F.C.)

Counsel: Pascal Lauzon, for Appellant
André J. Bélanger, for Respondent

Subject: Intellectual Property; Civil Practice and Procedure

Table of Authorities

Cases considered by *Robert M. Mainville J.A.*:

Beck v. Montana Construction Property Ltd. (1963), 5 F.L.R. 298, [1964-65] N.S.W.R. 229 (Australia S.C.) — considered

CCH Canadian Ltd. v. Law Society of Upper Canada (2004), 236 D.L.R. (4th) 395, 317 N.R. 107, 30 C.P.R. (4th) 1, 2004 CarswellNat 446, 2004 CarswellNat 447, 2004 SCC 13, [2004] 1 S.C.R. 339, 247 F.T.R. 318 (note), [2004] 3 F.C.R. 241 at 244 (S.C.C.) — followed

Guillemette c. Centre coopératif de Loisirs & de Sports du Mont Orignal (1986), 1986 CarswellNat 582, 15 C.P.R. (3d) 409, 12 F.T.R. 51, 15 C.I.P.R. 123 (Fed. T.D.) — followed

J.L. De Ball Canada Inc. v. 421254 Ontario Ltd. (1999), 1999 CarswellNat 2761, 179 F.T.R. 231, 5 C.P.R. (4th) 352, 1999 CarswellNat 4389 (Fed. T.D.) — followed

Kraft Canada Inc. v. Euro Excellence Inc. (2007), 59 C.P.R. (4th) 353, 2007 CarswellNat 2087, 2007 CarswellNat 2088, 2007 SCC 37, (sub nom. *Kraft Canada v. Euro Excellence Inc.*) 282 D.L.R. (4th) 577, 365 N.R. 332, (sub nom. *Euro Excellence Inc. v. Kraft Canada Inc.*) [2007] 3 S.C.R. 20 (S.C.C.) — followed

Motel 6 Inc. v. No. 6 Motel Ltd. (1981), 1981 CarswellNat 4, 14 B.L.R. 241, 56 C.P.R. (2d) 44, 1981 CarswellNat 521, 127 D.L.R. (3d) 267, [1982] 1 F.C. 638 (Fed. T.D.) — followed

Netupsky v. Dominion Bridge Co. (1971), [1972] S.C.R. 368, [1972] 1 W.W.R. 420, 3 C.P.R. (2d) 1, 24 D.L.R. (3d) 484, 1971 CarswellBC 281, 1971 CarswellBC 313 (S.C.C.) — followed

Ritchie v. Sawmill Creek Golf & Country Club Ltd. (2004), 2004 CarswellOnt 3525, 189 O.A.C. 282, 35 C.P.R. (4th) 163 (Ont. Div. Ct.) — referred to

Robertson v. Thomson Corp. (2006), 2006 SCC 43, 2006 CarswellOnt 6182, 2006 CarswellOnt 6183, 353 N.R. 104, 274 D.L.R. (4th) 138, 52 C.P.R. (4th) 417, [2006] 2 S.C.R. 363, 217 O.A.C. 332 (S.C.C.) — considered

Statutes considered:

Code civil du Québec, L.Q. 1991, c. 64
art. 7 — referred to

Copyright Act, R.S.C. 1985, c. C-42
Generally — referred to

s. 13(4) — considered

s. 13(7) — considered

APPEAL from judgment reported at *Tremblay c. Orio Canada Inc.* (2013), 2013 CF 109, 2013 CarswellNat 173, 2013 FC 109, 2013 CarswellNat 1145 (F.C.), finding that plaintiff's copyright was not infringed.

Robert M. Mainville J.A.:

1 This is an appeal from a decision of Justice Boivin of the Federal Court ("the judge") dated January 31, 2013, citation number 2013 FC 109, pertaining to the copyright in a program software known as the modified SAM program. The judge ruled that the appellant owned the copyright and had not assigned it to the respondent (Orio), but he nevertheless granted the latter an implied user licence authorizing it not only to market the software, but also to copy and modify it.

Facts and proceedings

2 The background of the dispute is straightforward, and the facts are admitted by the parties. For the past several years, Orio has been marketing an appointment management software tool for the auto mechanics industry. This program is known by the acronym SAM (Service Appointment Monitor). Orio entered into a contract of service with the appellant's company (which operates under the name Service Informatique Professionnel) in order to improve its SAM program. Since August 2009, Orio sells and installs copies of the reworked modified SAM program to its clients. The appellant and his employees worked on the software from April 2006 to June 2009, and Orio paid the appellant for this work. The new version of the software resulting from this work (the modified SAM program) was almost twice the size of the original version of SAM, and several complementary models were added.

3 The parties' business relationship ended in June 2009. In July 2009, Orio began working with another company, Groupe Énode, to continue developing the modified SAM program, and it provided that company with a copy of the source code to rework the software, thus creating the "reworked modified SAM program". This program contains a substantial part of the source code developed by the appellant's company.

4 The appellant submits that he owns the copyright in the modified SAM program. He acknowledges that he granted Orio a licence to use the software, but he submits that this licence did not allow Orio to copy the source code so that it could be

reworked by Groupe Énode. The appellant is therefore seeking the destruction of the reworked modified SAM program and an injunction ordering Orio to cease selling and installing that piece of software.

5 Orio submitted before the judge that it was the sole holder of all of the rights connected with the modified SAM program because the copyright in the program was assigned to it by the appellant in his written bids, which include the following clause:

[TRANSLATION]

Any development done for Orio Canada Inc. shall become the exclusive property thereof and may not therefore be marketed or reused by Service Informatique Professionnel or any other party.

6 The appellant submits that this assignment cannot be set up against him given that he did not formally sign these bids. He acknowledges that this clause governed his relationship with Orio, but he relies on the requirements of subsection 13(4) of the *Copyright Act*, R.S.C. 1985, c. C-32, which states that no assignment is "valid unless it is in writing signed by the owner of the right in respect of which the assignment or grant is made, or by the owner's duly authorized agent".

The trial judge's reasons

7 The judge held that the appellant owned the copyright in the improvements made to the SAM program. He wrote the following at paragraph 34 of his reasons: "in light of the case law stating that the author is the one who clothes the work with form and not the one who has the idea without making it concrete, I must find that it is the [appellant], through his employees, who is the author for the purposes of this case."

8 As to the assignment of copyright issue, the judge held at paragraph 44 of his reasons that the wording of the clause inserted by the appellant into his bids amounted to an assignment to Orio of copyright in the modified SAM program. However, given that these bids had not been formally signed by the appellant, the judge held that this assignment could not be set up against him in the light of the requirements of subsection 13(4) of the *Copyright Act*. The judge therefore refused to accept that the appellant's testimony to the effect that this clause governed all of his contracts with Orio was equivalent to a formal signature on the bids. He wrote the following at paragraph 49 of his reasons:

Accepting the defendant's argument and making the opposite finding solely on the basis of the plaintiff's testimony would render meaningless the requirement imposed by Parliament. This finding may appear rigid, but it complies with the formal requirements of the Act.

9 The judge nevertheless concluded, on the basis of the wording of this clause, that the appellant had granted Orio an implied licence to use the modified SAM program. In rejecting the appellant's application, the judge recognized that this licence allowed Orio to use the modified SAM program for the purpose of copying the source code and having it reworked by another programming company.

Positions of the parties on appeal

10 The appellant submits that although the judge correctly ruled that Orio held an implied licence to use the modified SAM program, he erred in extending the scope of that licence beyond the marketing of the software so as to include a right to copy the source code and rework it to create the reworked modified SAM program. According to the appellant, it [TRANSLATION] "would be contrary to the letter and spirit of the *Copyright Act* for the scope of a marketing user licence to have the effect, in practice, of conferring on the licensee the right to act for all intents and purposes as though it owned the copyright, thereby preventing the owner of the copyright from exercising his rights in the other aspects of copyright" (Memorandum of the Appellant at para. 41).

11 According to the appellant, only an assignment of copyright or an exclusive licence could confer such rights upon Orio. In either of those cases, under subsections 13(4) and (7) of the *Copyright Act*, the assignment or exclusive licence must be in writing and signed by the owner of the copyright. However, the judge held that the appellant's signature did not appear on the documents that included the assignment clause.

12 Strangely, in its appeal, Orio is no longer challenging the appellant's ownership of copyright in the modified SAM program. Orio is content with its implied licence, which, in its view, includes the right to copy the source code of the modified SAM program for the purposes of developing and marketing the reworked modified SAM program (Memorandum of Orio at para. 10).

13 However, Orio continues to invoke the assignment clause contained in the appellant's bids. It submits that, in the light of this clause, the appellant's actions are [TRANSLATION] "immoral and dishonest [and] purely motivated by resentment" (Memorandum of Orio at para. 24).

14 During his argument before the Court, counsel for Orio added that there was, indeed, an assignment of copyright in Orio's favour, and that, but for the fact that the appellant had tricked his client by failing to add a formal signature to the bids, this assignment could indeed have been set up against the appellant. In Orio's view, to the extent that the assignment agreed upon by the parties cannot be set up against the appellant in the light of the formal requirements of the *Copyright Act*, the Court must take into account the language of this written assignment to give a broad scope to the implied user licence recognized by the judge.

Analysis

15 There is no doubt that the parties' intent was that any development by the appellant of the SAM program would become the exclusive property of Orio. The clause reproduced above and included in the bid documents cannot be interpreted in any way other than as an assignment to Orio of the copyright in the modified SAM program. When the [TRANSLATION] "exclusive property" in the development of a piece of software is assigned, this necessarily includes the ownership of the copyright in such development.

16 In this respect, the appellant testified as follows upon examination:

[TRANSLATION]

Q There you are, ownership:

[TRANSLATION]

"Any development done for Orio Canada Inc. shall become the exclusive property thereof and may not therefore be marketed or reused by Service Informatique Professionnel or any other party."

Did you take the initiative of inserting that clause?

A Yes.

Q Why?

A Because it's an annotation that has been used in earlier contracts, for exclusivity, to protect against competition.

Q Did it apply to all contracts you received from Orio Canada? A Yes, the established bids, there, yes, of course.

(Appeal Book at p. 340, lines 7 to 25)

[TRANSLATION]

Q. O.K. And did I understand correctly from your response that all of your dealings with Mr., with Orio Canada, were governed by the spirit of that clause, the spirit and the letter of that clause?

A Yes.

(Appeal Book at p. 342, lines 13 to 18).

17 The judge, therefore, correctly decided that the parties had agreed to assign the copyright in the modified SAM program to Orio. However, the judge was of the view that this assignment could not be set up against the appellant given the requirements of subsection 13(4) of the *Copyright Act*, which reads as follows:

13. (4) The owner of the copyright in any work may assign the right, either wholly or partially, and either generally or subject to limitations relating to territory, medium or sector of the market or other limitations relating to the scope of the assignment, and either for the whole term of the copyright or for any other part thereof, and may grant any interest in the right by licence, but no assignment or grant is valid unless it is in writing signed by the owner of the right in respect of which the assignment or grant is made, or by the owner's duly authorized agent.

[Emphasis added.]

13. (4) Le titulaire du droit d'auteur sur une oeuvre peut céder ce droit, en totalité ou en partie, d'une façon générale ou avec des restrictions relatives au territoire, au support matériel, au secteur du marché ou à la portée de la cession, pour la durée complète ou partielle de la protection; il peut également concéder, par une licence, un intérêt quelconque dans ce droit; mais la cession ou la concession n'est valable que si elle est rédigée par écrit et signée par le titulaire du droit qui en fait l'objet, ou par son agent dûment autorisé.

(Je souligne.)

18 The purpose of the *Copyright Act* is to strike a fair balance between the public interest in the creation and dissemination of works of the arts and the intellect, on the one hand, and obtaining a just reward for the creator, on the other hand: *CCH Canadian Ltd. v. Law Society of Upper Canada*, 2004 SCC 13, [2004] 1 S.C.R. 339 at para. 23. It was with this objective in mind that Parliament required that an assignment of copyright not be valid unless it is in writing signed by the owner of the copyright. This principle applies equally to an outright assignment of copyright (subsection 13(4) of the Act) and to an exclusive licence with respect to a copyright (subsection 13(7) of the Act).

19 What distinguishes an assignment or an exclusive licence from a non-exclusive licence is the transfer of a right of ownership in the copyright. In the words of Justice Rothstein in *Euro-Excellence Inc. v. Kraft Canada Inc.*, 2007 SCC 37, [2007] 3 S.C.R. 20 at para. 28: "An assignee possesses full ownership rights in the copyright with respect to the rights assigned. A non-exclusive licensee has no property rights in the copyright, and enjoys only contractual rights *vis-à-vis* the owner-licensor. ... An exclusive licensee, on the other hand, has a limited property interest in the copyright."

20 Subsections 13(4) and 13(7) of the *Copyright Act* deal with the transfer of a property right: *Robertson v. Thomson Corp.*, 2006 SCC 43, [2006] 2 S.C.R. 363 at para. 56, citing *Ritchie v. Sawmill Creek Golf & Country Club Ltd.* (2004), 35 C.P.R. (4th) 163 at para. 20. In order to protect copyright owners, the statute requires that they consent clearly to the assignment of their interest in their right. That is why the *Copyright Act* requires the holder of the copyright to indicate his or her informed consent to the transfer of the property right in writing bearing his or her signature.

21 Therefore, the case law consistently holds that an assignment or a grant of an exclusive licence cannot be set up against the owner of a copyright unless it is in writing signed by the owner of the right in question: see e.g. *Motel 6 Inc. v. No. 6 Motel Ltd.* (1981), [1982] 1 F.C. 638, 56 C.P.R. (2d) 44; *Guillemette v. Centre coopératif de Loisirs & de Sports du Mont Orignal* (1986), 12 F.T.R. 51, 15 C.P.R. (3d) 409; *J.L. de Ball Canada Inc. v. 421254 Ontario Ltd.* (1999), 5 C.P.R. (4th) 352, 179 F.T.R. 231.

22 However, those cases do not involve copyright owners who have admitted before the court that they have consented to the transfer of ownership of the right in question. It strikes me as excessively formalistic not to set up against an assignor a copyright assignment clause that he himself has drafted and that he has recognized before the court as governing his relationship with the assignee, merely because the clause is unsigned. As I noted above, the purpose of subsections 13(4) and (7) of the *Copyright Act* is to protect copyright owners against assignments of copyright to which they have not clearly consented. When the assignor himself recognizes before the court the assignment clause governing the relationship, the objective of the Act, in my view, is met.

23 In the particular circumstances of this case, in which the owner of the right has admitted before the court deciding the issue that the assignment clause governs his relationship with the assignee, form ought not to prevail over substance. I also note that this dispute arose in Quebec and that article 7 of the *Civil Code of Québec*, S.Q. 1991, c. 64, sets out that "[n]o right may be exercised with the intent of injuring another or in an excessive and unreasonable manner which is contrary to the requirements of good faith."

24 Orio, however, did not cross-appeal the judge's holding that the assignment of copyright could not be set up against the appellant. In the circumstances, it is not for this Court to alter this aspect of the judge's decision.

25 As for the implied user licence, I see no error in the judge's holding that, in the circumstances, the appellant had consented not only to an implied licence to market the modified SAM program, but also to the possibility of further modifications by Orio in order to increase sales. In this respect, *Netupsky v. Dominion Bridge*, [1972] S.C.R. 368, a Supreme Court of Canada case, seems to be analogous to this case. In that case, the SCC recognized an implied licence to modify plans for a civil engineering work. At pages 377-78 of that case, Justice Judson adopted the following statement of the Supreme Court of New South Wales in *Beck v. Montana Construction Pty. Ltd.* (1963), 305 F.L.R. 298 at pages 304-5:

... that the engagement for reward of a person to produce material of a nature which is capable of being the subject of copyright implies a permission or consent or licence in the person making the engagement to use the material in the manner and for the purpose in which and for which it was contemplated between the parties that it would be used at the time of the engagement.

26 I have absolutely no doubt that the intent of the parties was that the modified SAM program could be not only marketed, but also further improved in the future at Orio's request, and that these improvements could be carried out either by the appellant or by a third party designated by Orio. By explicitly recognizing that "[a]ny development done for Orio Canada Inc. shall become the exclusive property thereof", the appellant renounced any exclusive rights he might have had to develop future improvements to the program in question. This means that the implied licence resulting from the relationship between the parties allows Orio to copy the source code of the modified SAM program in order to have it reworked by a third party. The trial judge therefore did not err in so deciding.

27 For these reasons, I would dismiss the appeal with costs awarded to Orio.

Marc Noël J.A.:

I agree.

Johanne Trudel J.A.:

I agree.

Appeal dismissed.

Tab 15

Most Negative Treatment: Distinguished

Most Recent Distinguished: [Podeszwa v. Preete](#) | 2004 CarswellOnt 2812, 6 M.V.R. (5th) 217, [2004] O.J. No. 2897, 132 A.C.W.S. (3d) 441, [2004] O.T.C. 604 | (Ont. S.C.J., Jun 29, 2004)

1995 CarswellOnt 362
Ontario Court of Justice (General Division)

Woodglen & Co. v. Owens

1995 CarswellOnt 362, [1995] O.J. No. 1941, 24 O.R. (3d) 261,
38 C.P.C. (3d) 361, 56 A.C.W.S. (3d) 272, 6 W.D.C.P. (2d) 323

**WOODGLEN & CO. LTD., TOBA DRIVE BUILDING CORP., PAUL MANCHESTER
and CLAUDIA MANCHESTER v. DOUGLAS OWENS and OWENS, WRIGHT**

E. Macdonald J.

Judgment: June 22, 1995
Docket: Doc. 92-CQ-24370 CM

Counsel: *Ted R. Schieck*, for moving parties (defendants).
Les J. O'Connor, for responding parties (plaintiffs).

Subject: Civil Practice and Procedure

Table of Authorities

Cases considered:

Boulianne v. Flynn, [1970] 3 O.R. 84 (Co. Ct.) — *distinguished*

Chertsey Developments Inc. v. Red Carpet Inns Ltd. (1990), 45 C.P.C. (2d) 84, 74 O.R. (2d) 665 (Master) — *referred to*

Descôteaux c. Mierzwinski, [1982] 1 S.C.R. 860, 28 C.R. (3d) 289, 1 C.R.R. 318, 44 N.R. 462, 70 C.C.C. (2d) 385, 141 D.L.R. (3d) 590 — *referred to*

Katz v. Lapsker, [1988] O.J. 1950 (Master) — *applied*

Lloyds Bank Canada v. Canada Life Assurance Co. (1991), 47 C.P.C. (2d) 157 (Ont. Gen. Div.) — *considered*

Meaney v. Busby (1977), 2 C.P.C. 340, 15 O.R. (2d) 71 (H.C.) — *distinguished*

Nowak v. Sanyshyn (1979), 9 C.P.C. 303, 23 O.R. (2d) 797 (H.C.) — *considered*

Solosky v. Canada, [1980] 1 S.C.R. 821, 16 C.R. (3d) 294, 30 N.R. 380, 50 C.C.C. (2d) 495, 105 D.L.R. (3d) 745 — *considered*

Warren v. Insurance Exchange Ltd. (1982), 28 C.P.C. 275, 37 O.R. (2d) 717 (Master) — *considered*

Zidenburg v. Greenberg (1993), 15 O.R. (3d) 68 (Master) — referred to

Statutes considered:

Planning Act, R.S.O. 1990, c. P. 13.

Words and phrases considered:

heart of the matter — "Along these same lines, the defendants submit that when the solicitor-client communication goes to the 'very heart of the matters at issue' in the litigation, the solicitor and client privilege cannot be maintained. In my view, this is not what the cases stand for ...

.....

In *Katz v. Lapsker*, [1988] O.J. 1950, another case of Master Peppiatt, counsel for the moving party had argued that the solicitor-client privilege had been penetrated because the communications were 'at the heart of the matter of the litigation.' Master Peppiatt correctly stated the law in this regard as follows:

'With great respect to [counsel for the moving party], I think that he has misconceived the principle laid down in these cases. It is that the solicitor-client privilege is set aside (as I said, I think this is really a form of waiver) where a party raises the issue of what he learned from his solicitor. It does not mean that where certain information or evidence is central to the litigation, the solicitor can be compelled to reveal what he, or she, said to the client. Such a doctrine would entirely destroy the solicitor-client privilege.'

... The cases in this area are based upon waiver where a party puts into issue the instructions given to his or her solicitor. If a litigant were able to obtain information that would otherwise be privileged, on the basis that it goes to the heart of the matter, the concept of the solicitor-client privilege would be destroyed. Accordingly, I view the 'heart of the matter' concept as being one which is misconceived."

solicitor-client communications — "In *Solosky* [*Solosky v. R.*, [1980] 1 S.C.R. 821], the modern principle of solicitor-client communications as framed by Wigmore [8 Wigmore, *Evidence* (McNaughton revision 1961) para.2292] was cited at p. 835 as follows:

'Where legal advice of any kind is sought from a professional legal adviser in his capacity as such, the communications relating to the purpose made in confidence by the client are at his instance permanently protected from disclosures by himself or by the legal adviser, except the protection may be waived.'

It has been said that when a solicitor-client communication is once privileged, it is 'always privileged' (see Sopinka, Lederman, Bryant, *The Law of Evidence* 2nd ed. (1992) at p. 658).

There are certain exceptions to this principle ..."

Motion by defendants to compel production of documents for which plaintiffs asserting litigation privilege and solicitor-and-client privilege.

E. Macdonald J.:

1 The moving parties (defendants) (hereafter the "defendants") seek an order that the plaintiffs produce documents contained in Schedule "B" of their affidavit of documents. The defendants submit that the privilege asserted by the plaintiffs over the

documents contained in Schedule "B" of the affidavit of documents is improperly claimed. The Schedule "B" documents are voluminous and are listed on 90 pages in the affidavit of documents of the plaintiffs.

2 I will briefly set out the relevant facts. In this action, commenced in July 1992, the plaintiffs allege solicitors' negligence by the defendants in registering certain conveyances of parts of a registered plan in 1987 in a development scheme in the city of North York (the "city"). The lands (sometimes referred to as the Toba Drive lands) were purchased by the plaintiffs for redevelopment into luxury housing estates. To observe that the plaintiffs encountered complex problems in their efforts to redevelop the lands is an understatement. The project was distinguished by complex and ongoing legal problems, broadly speaking, in the area of municipal law.

3 In 1981, Weir & Foulds was retained by the plaintiffs with respect to planning matters and litigation with the city. In July 1986, the defendants were retained by the plaintiffs to perform conveyancing work for the creation of certain lots in the development. The plaintiffs allege in this action that the defendants were negligent in carrying out the terms of this retainer. More specifically, the plaintiffs contend that the defendants failed to register easements with respect to road access and services for the lots that were to be created. Weir & Foulds' retainer continued while the defendants were retained. The defendants take the position that they are, therefore, entitled to examine numerous documents listed in Schedule "B". There are two bases for this position. First, Weir & Foulds was retained for matters of a litigation nature, primarily Ontario Municipal Board (hereafter "OMB") hearings, which have concluded. It is argued that having concluded, there can no longer be any litigation privilege in respect of the documents that the defendants now wish to inspect. Second, it is also argued that the subject matter of the correspondence and memoranda over which privilege is now asserted, is at the heart of the claim against Mr. Owens. Therefore, the defendants argue that they should be able to examine the solicitor-client communications between the plaintiffs and the Weir & Foulds firm.

Litigation Privilege

4 Mr. O'Connor identified and separated the documents over which litigation privilege is claimed. He argued that certain experts have been assisting Mr. Manchester (the instructing mind of the plaintiffs) for many years with respect to various issues concerning the city and the processing of plans of subdivision for the redevelopment of these lands, which culminated in a lengthy OMB hearing in November 1992. In the course of their preparation for that hearing, the experts and Mr. Manchester, as well as members of the firm of Weir & Foulds, have exchanged documentation and worked on various matters concerning the planning and engineering aspects of the development. The plaintiffs now argue that these documents do not relate to the claims against Mr. Owens in negligence for failing to properly execute his conveyancing retainer to create five marketable lots from Block P.

5 Furthermore, there has been a lengthy and continuing state of litigation with the city. An OMB hearing concluded in November of 1992, at which time the OMB refused planning permission to develop further lots on the Toba Drive lands. Mr. Manchester has proceeded to file another plan of subdivision with the city which is being processed with the understanding that there will be a further OMB hearing in the future. At that time, the past history of opposition by the city is anticipated to continue. It is on this basis that the plaintiffs take the position that they are entitled to maintain their litigation privilege with respect to all of the expert correspondence and memoranda because of the past history of the plaintiffs' efforts to obtain requisite approvals from the city. The plaintiffs argue that it would be an improper invasion of that privilege to oblige production of the documentation in these proceedings when it is not relevant to the claims advanced and the litigation with the city is ongoing.

6 The defendants submit that privileged communications lose their privileged status when the litigation is complete. In support of this, the defendants refer to the case of *Boulianne v. Flynn*, [1970] 3 O.R. 84 (Co. Ct.) (hereafter *Boulianne*) where at p. 89, the following comments were made:

... the privilege accorded to reports prepared for purposes of litigation by experts at the request of a solicitor, rests not on a concern that the expert might otherwise fail to make full disclosure (the litigation being of no personal concern to him) but on the desirability of a solicitor being uninhibited in collecting confidential information and opinions for the purpose

of preparing his case for trial whether such information and opinions further his case or not. Thus, once the litigation is concluded, the reason for the privilege disappears.

7 In *Meaney v. Busby* (1977), 15 O.R. (2d) 71 (H.C.) (hereafter *Meaney*), Grange J. (as he then was) agreed with the conclusion of Colter Co. Ct. J. in *Boulianne* and concluded that communications from third parties received for the purpose of contemplated litigation cease to be privileged when the litigation is concluded. It is on this basis that the defendants argue that the correspondence, memoranda and drafts leading up to the final experts' reports should now be produced. The final experts' reports have been produced.

8 In *Boulianne* and *Meaney*, the claimants sought medical reports where there was no dispute that the prior litigation had concluded. I am not satisfied that it can be said in this case that the prior litigation has concluded. Of major concern is that the continuing state of the litigation with the city and the plaintiffs is not over. Another plan of subdivision has been filed with the city. Mr. Manchester anticipates that there will be further communications with the city on this matter. Some of the experts retained in connection with the past litigation continue to be working on the present matters before the city. Part of the litigation with the city is concluded but some of the issues canvassed at earlier hearings are still in question. The anticipated hearings involve at least some aspects of the same lands.

9 Accordingly, the documents over which litigation privilege is asserted are indeed privileged and, therefore, they are not producible. The litigation is not over; on the contrary, it is ongoing and I am not satisfied that no harm will be done if the documents are produced. Of particular concern to me in coming to this conclusion is the possibility of the existence of sensitive letters between the plaintiffs and their experts which could be put to witnesses for the city in this litigation, thereby possibly prejudicing the plaintiffs' position at the anticipated OMB hearing dealing with the same lands. To express it most neutrally, the plaintiffs have the perception that the city has been "less than friendly" to them in the past. This perception appears to be justified and it compounds the concern for prejudice if the documents were produced.

Solicitor-Client Privilege

10 By agreement of counsel, the plaintiffs delivered to me four boxes containing many hundreds of documents, the production of which is contested on the basis that the documents are cloaked with solicitor-client privilege. I have already dealt with the documents which are said to be subject to litigation privilege and, as a result of my finding on this issue, it is not necessary for me to deal more specifically with the documents over which litigation privilege is asserted.

11 With respect to the remaining documents, I have concluded that some of these documents ought not to be cloaked with solicitor-client privilege given the issues raised by the plaintiffs in these proceedings.

12 The plaintiffs have argued that the claim for privilege over certain documents is on the basis that solicitor-client communications are always entitled to privilege, regardless of their subject matter and regardless of their age. In issue, in this aspect of this motion, are documents in the form of letters and memoranda between Mr. Manchester and various partners, associates and planners of the firm of Weir & Foulds. There are also inter-office memoranda exchanged between various partners and associates at the firm.

13 It is important to note there has been *no actual waiver* of privilege by Mr. Manchester or any of the plaintiffs with respect to these communications with Weir & Foulds.

14 The concept of privileged communications between a solicitor and client has long been recognized as fundamental to the due administration of justice (see *Solosky v. Canada*, [1980] 1 S.C.R. 821 (hereafter *Solosky*) and *Descôteaux c. Mierzwinski*, [1982] 1 S.C.R. 860). In *Solosky*, the modern principle of solicitor-client communications as framed by Wigmore [8 Wigmore, *Evidence* (McNaughton rev. 1961) para.2292] was cited at p. 835 as follows:

Where legal advice of any kind is sought from a professional legal adviser in his capacity as such, the communications relating to the purpose made in confidence by the client are at his instance permanently protected from disclosures by himself or by the legal adviser, except the protection may be waived.

15 It has been said that when a solicitor-client communication is once privileged, it is "always privileged" (see Sopinka, Lederman, Bryant, *The Law of Evidence* 2nd. ed. (1992) at p. 658).

16 There are certain exceptions to this principle. The defendants submit that one exception to the general rule occurs when a party puts the presence or absence of legal advice in issue. The case of *Nowak v. Sanyshyn* (1979), 23 O.R. (2d) 797 (H.C.) (hereafter *Nowak*) and three cases of Master Peppiatt are cited in support of this proposition [see: *Zidenburg v. Greenberg* (1993), 15 O.R. (3d) 68; *Chertsey Developments Inc. v. Red Carpet Inns Ltd.* (1990), 74 O.R. (2d) 665 (hereafter *Chertsey*); *Warren v. Insurance Exchange Ltd.* (1982), 37 O.R. (2d) 717 (hereafter *Warren v. Insurance Exchange*)].

17 In *Nowak*, the plaintiff sued for a declaration that a mortgage and guarantee were null and void on the grounds that she had insufficient legal advice. Grange J. (as he then was) stated the issue in the case as follows at p. 799:

The issue — perhaps the only issue — in the case at bar is the advice obtained by the plaintiff before she signed the documents. If she was advised fully her action will fail; if she was not it may succeed. It would, in my mind, be a distortion of the purpose of the rule to permit it to be used to prevent inquiry into the matter by the defendants.

18 Several cases were referred to where it was found that the claim of privilege had been disposed of either upon the ground that the privilege does not extend to the very issue of the action or that the privilege has been waived whenever the communication between the solicitor and client is legitimately put in issue in the action (p. 799). After reviewing the cases, it was pointed out at pp. 799-800:

In most of these cases the Court determined the matter on the basis of waiver of privilege. As Zuber J., said in *James et al. v. Maloney*, *supra* [[1973] 1 O.R. 656], it may be that mere reference to a communication (or lack of it) in a pleading is insufficient to amount to a waiver of a privilege attaching to that document but *where the document (or evidence) is used as the basis for a claim or defence, as Zuber, J., also said in the same case, the result is a waiver of privilege.* (Emphasis added)

19 In *Warren v. Insurance Exchange*, the main ground raised in the statement of defence was that the plaintiffs failed to reveal to the defendants certain information as a result of which a business which was purchased was worth substantially less than the defendants agreed to pay for it. Therefore, the main issue concerned what the defendants knew at the time of the closing. Master Peppiatt applied the *Nowak* case and concluded that if the defendants knew of the things of which they now were complaining, their action would fail. The documents were ordered to be produced insofar as they related to the defendants' knowledge at the time of closing.

20 The cases referred to by the defendants can be summarized as follows. They are based upon a finding of waiver, actual or deemed. That is to say, the privilege is lost when the contents of a solicitor-client communication is put in issue.

21 Along these same lines, the defendants submit that when the solicitor-client communication goes to the "very heart of the matters at issue" in the litigation, the solicitor and client privilege cannot be maintained. In my view, this is not what the cases stand for. In *Chertsey*, a case referred to me by the defendants, an argument was based on the so-called "heart of the matter" exception. As in this case, it was argued in *Chertsey* that *Warren v. Insurance Exchange* and *Nowak* stood for the proposition that when the solicitor-client communication goes to the very heart of the matters in issue in the litigation, there can be no solicitor-client privilege. After reviewing both of these cases in great detail, Master Peppiatt referred to a case which had been distinguished in the *Nowak* case and stated at p. 670 in *Chertsey*:

It is not authority for the proposition that whenever a communication between a solicitor and a client is in relation to a matter that goes to the heart of the litigation it is producible. Such a proposition would almost completely destroy the solicitor-client privilege because people very often discuss with their solicitors the very matters that later become the subject of litigation.

22 In *Katz v. Lapsker*, [1988] O.J. 1950, another case of Master Peppiatt, counsel for the moving party had argued that the solicitor-client privilege had been penetrated because the communications were "at the heart of the matter of the litigation." Master Peppiatt correctly stated the law in this regard as follows:

With great respect to [counsel for the moving party], I think that he has misconceived the principle laid down in these cases. It is that the solicitor-client privilege is set aside (as I said, I think this is really a form of waiver) where a party raises the issue of what he learned from his solicitor. It does not mean that where certain information or evidence is central to the litigation, the solicitor can be compelled to reveal what he, or she, said to the client. Such a doctrine would entirely destroy the solicitor-client privilege.

23 In my view, this is an accurate characterization of the issue raised by the defendants in this motion. The cases in this area are based upon waiver where a party puts into issue the instructions given to his or her solicitor. If a litigant were able to obtain information that would otherwise be privileged, on the basis that it goes to the heart of the matter, the concept of solicitor-client privilege would be destroyed. Accordingly, I view the "heart of the matter" concept as being one which is misconceived. I note that there is no mention of the same in *Sopinka and Lederman*, *supra*.

24 Perhaps the issue is better expressed on the basis that a party may waive solicitor and client privilege by alleging reliance on an opposing party's conduct. The waiver may be actual or voluntary, or it may be deemed or by implication. The waiver is *always by the client*. The argument is that, if a plaintiff brings an action and states that he or she relied on the defendant's representations, and the defendant denies the plaintiff's reliance and alleges, in the alternative, that the plaintiff obtained his or her own legal advice and relied upon that, the party alleging reliance waives solicitor and client privilege and must disclose the legal advice received. *Lloyds Bank Canada v. Canada Life Assurance Co.* (1991), 47 C.P.C. (2d) 157 (Ont. Gen. Div.) (hereafter "*Lloyds Bank*") is cited in support of this proposition.

25 In *Lloyds Bank*, the plaintiff alleged that it had suffered a loss by reason of the default of a corporation on a loan. It was pleaded that the bank was induced to make the loan by the assurance of the defendants (the principal shareholders). The assurances were to be inferred from "comfort letters". The thrust of the defence was that the letters did not contain any commitment to provide financial support to the corporation and that there were no other representations which went beyond or contradicted the terms of the letters.

26 The submission of the defendants in *Lloyds Bank* was that the bank had waived any claim it might have to solicitor-client privilege by pleading that it was induced by the defendants to make the loan and that it relied upon the representations made by the defendants in determining that it would make the loans. In such circumstances, the bank's knowledge of the relevant law and legal advice it received with respect to the giving of that commitment became relevant.

27 After a comprehensive review of the authorities, Van Camp J. concluded at p. 167-168:

I have reviewed these cases in some detail in order to show how they can be distinguished from one another and to show that there is not waiver in every instance where the state of mind is in issue. Certainly it will not be waived where it is the person who seeks the information that has raised the question of reliance.

28 It should be noted at this stage that it is the plaintiffs in this case who raised the question of reliance in the statement of claim. I reproduce paragraph 21 of the statement of claim:

21. *The Plaintiffs state that they relied on the assurances of Mr. Owens, that it was not necessary to register easements among the remaining ownerships at that time and that it could be done at any time thereafter to their substantial detriment.* In fact, the City of North York closed the window of opportunity by reinstating part lot control over the lands in question pursuant to its by-law number 30649 of September 19, 1988, the existence of which the Plaintiffs were advised of in January, 1989. (Emphasis added)

29 In response, the defendants allege in the statement of defence that Mr. Manchester received his own legal advice. As an example of the issues raised in the amended statement of defence, I reproduce paragraph 59(o) exactly as it appears:

59.(o) He [Manchester] represented to Owens that he had appropriate *and competent advice and guidance* in the areas of municipal planning and development law, or in the alternative, he failed to properly or at all inform Owens of his need for *such guidance, expertise and advice outside of Owens' own area of practice*. [Underlining in original text as a result of amendments]

30 In *Lloyds Bank*, the bank pleaded in its statement of claim that it was induced by the defendants to make a loan and that it relied upon the defendants' representations in deciding to advance the funds. The defendants alleged that such reliance was unreasonable and that the plaintiff had received its own legal advice. Van Camp J. held at p. 168-169:

In the circumstances herein when the Bank has pleaded reliance upon the comfort letters it has waived the privilege insofar as it must divulge whether it had obtained legal advice before authorizing the loan as to the security of the comfort letters.

31 This analysis is helpful and, to it, I would add that, more recently, the concept of fairness has become a factor which determines what constitutes waiver by implication, or deemed waiver. On this issue, I am guided by Sopinka and Lederman, *supra*, pages 666-668 where the following comments appear:

It has also been said that clear intention is not in all cases an important factor. In some circumstances, waiver may occur even in the absence of any intentions to waive the privilege. There may also be waiver by implication only.

As to what constitutes waiver by implication, Wigmore [8 Wigmore, *Evidence* (McNaughton rev. 1961), at 2327, at 635-36, quoted in *Hunter v. Rogers*, [1982] 2 W.W.R. 189, (sub nom. *Rogers v. Hunter*) 34 B.C.L.R. 206 (S.C., at 191 (W.W.R.))] said:

Judicial decision gives no clear answer to this question. In deciding it, regard must be had to the double elements that are predicated in every waiver, i.e., not only the element of implied intention, but also the element of fairness and consistency. A privileged person would seldom be found to waive, if his intention not to abandon could alone control the situation. There is always also the objective consideration that when the conduct touches a certain point of disclosure, fairness requires that his privilege shall cease whether he intended that result or not. He cannot be allowed, after disclosing as much as he pleases, to withhold the remainder. He may elect to withhold or to disclose, but after a certain point his election must remain final.

Whether intended or not, waiver may occur when fairness requires it, for example, if a party has taken positions which would make it inconsistent to maintain the privilege ...

The notion of fairness has also been invoked as a basis for waiver when the party directly raises in a pleading or proceeding the legal advice that he or she received, thereby putting that advice in issue. Similarly, if a client denies that he or she gave instructions to the lawyer to settle a debt, the other party who is seeking to enforce the settlement is free to examine the lawyer on what was said between the lawyer and the client.

The extent and nature of legal advice received by a party can be put in issue when that party alleges that he or she possessed a particular state of mind as, for example, reliance upon the defendant's representations. If the defence is that the plaintiff had relied upon his or her own legal advice on the question, then such legal advice must be disclosed ...

Professor Gary D. Watson has suggested that future cases may view the issue differently:

It seems reasonably clear that the 'fairness' test has emerged as the relevant principle for determining when solicitor and client privilege is waived by conduct in the course of litigation. While the courts have not yet clearly embraced the view that the unilateral assertion of an issue by one party can lead to compulsory disclosure of the adverse party's solicitor-client communications, do not be surprised if the law moves in this direction; ultimately, the fairness test

may be interpreted as meaning that solicitor-client privilege is waived whenever the communications between the solicitor and the client are legitimately brought in issue in the action.

32 Against the background of the above guidelines, the following considerations are of crucial importance in the face of what I understand to be the legally correct nature of the waiver argument. First, the law firm of Weir & Foulds, which has custody of the documents over which solicitor-client privilege is asserted, has had a long history with the plaintiffs. Included in this history is an ongoing and active retainer during the period of time that the defendants were retained by the plaintiffs. Second, any action founded on allegations of solicitors' negligence is a very serious one. It strikes at the root of the solicitor's livelihood, i.e. his or her professional reputation. In defence of such an action, fairness dictates that the solicitor ought not to be frustrated by claims of solicitor-client privilege which may indicate the state of the mind of the plaintiffs in giving instructions, and more precisely, the exact nature of the instructions. A careful examination of the pleadings herein suggests that there is an issue as to the delineation of the mandate of both law firms acting contemporaneously for the plaintiffs on municipal law matters on the one hand and conveyancing matters on the other hand.

33 It cannot be said that the necessity of registering easements is purely a conveyancing matter, even if the registration of the necessary easements could have then been done without *Planning Act* consents from the Committee of Adjustments of the City. This is an oversimplification of the issue in view of the history of the legal problems that were faced with the lands in question. To approach the matter on this basis would be unfair to the defendants because it would preclude any investigation of documents which may shed light on the state of mind of the persons giving the instructions, i.e. the plaintiffs. Mr. Owens acted for the plaintiffs on matters respecting many aspects of the development and financing of some of the Toba Drive lands from July 1986 to at least April 1990. Mr. Manchester, a sophisticated person, in his wisdom, saw fit to divide legal work respecting these lands amongst several law firms. He did not change solicitors per se and, in my inspection of the documents, over which solicitor-client privilege is now asserted, I have not seen anything which suggests that Mr. Owens and members of the law firm of Weir & Foulds were in consultation with each other over any aspect of their respective retainers. By pleading as they have, the plaintiffs have put into issue the state of mind of the person giving the instructions.

34 A key determination in this lawsuit will be whether these instructions were such that it was reasonable for Mr. Owens to conclude, as he apparently did, that the matter of easements was not something that he was to be concerned with. While there has been no actual waiver of solicitor-client privilege by Mr. Manchester, on behalf of the plaintiffs, there is a deemed waiver or a waiver by implication when the plaintiffs put into issue the nature of the legal advice that was received in this, an action for damages based on solicitors' negligence. In these circumstances, the sanctity of solicitor-client privilege, as it has been traditionally known, cannot stand. Mr. Manchester, as the instructing mind of the plaintiffs, must, on their behalf, produce documents bearing dates from 1985 to the date of the end of Mr. Owens' retainer and which refer to matters of:

1. the knowledge and familiarity of the plaintiffs about easements, not only with respect to the five lots on Block "P", but more generally with respect to all of the lands in the Toba Drive development;
2. documents which contain any reference to the reimposition of part lot control and the plaintiffs' knowledge of the ramifications of the same;
3. documents, if any, which illustrate the mandate of Weir & Foulds as opposed to the mandate of Mr. Owens' law firm; and
4. documents, if any, including correspondence and memoranda, between Mr. Manchester and members of the law firm of Weir & Foulds, including inter-office memoranda amongst members of the law firm of Weir & Foulds respecting co-user agreements referable to the Toba Drive lands.

35 Generally speaking, any of these documents which contain reference to easements, whether it be channelization easements, sewer, driveway or hydro easements, are producible. In my review of the files, I noted, in many instances, references to easements and references to the overall strategy of Mr. Manchester in his ongoing struggle to achieve redevelopment of the Toba Drive lands. Documents which reveal information about this strategy are also producible.

36 Having said the above, there are many documents which I have seen which, in my view, are not producible. They appear to have been prepared in furtherance of many other aspects of the dispute between the plaintiffs and the city of North York. These documents are in the form of letters, memoranda, drafts of pleadings, affidavits, in draft and final form, memoranda of law and file folders containing copies of cases relevant to issues in dispute.

37 I am aware that the month of July 1995 has been set aside for continuing discoveries in this matter, both of Mr. Manchester and, presumably, of Mr. Owens. In the face of this deadline, time does not permit me to list in these reasons each of the documents which are producible, given the guidelines set out above. I leave this to counsel and, if they are unable to agree, then I will decide the matter on a document by document basis. To assist counsel in the identification of documents which are producible in accordance with the above, I provide one example. It is a letter written by the plaintiff Paul Manchester to Mr. Tzekas, a solicitor at Weir & Foulds, and dated March 5, 1986. It states as follows:

Enclosed, please find a plan of survey for our property, as we would expect to have it registered as a registered plan. The City would then be given their water control easement over Part I of this plan, when it is registered.

I am now dealing with the gas, hydro, water and cable easements, and we should ensure, if possible, that we could (*sic*) these necessary easements over the same easement. We may encounter some objections to this because these easements would then also be over the sewer easement.

38 In conclusion, I would clarify that any communications between the plaintiffs and Weir & Foulds with respect to this action are not producible. To illustrate, if there are documents that indicate consultations between Mr. Manchester and Weir & Foulds respecting the potential of this proceeding against Mr. Owens, any such documents are privileged. I would add, as well, that documents between Mr. Manchester and Weir & Foulds respecting any aspect of the ongoing financial arrangements made with Weir & Foulds for payment of accounts rendered to the plaintiffs, shall not be producible.

39 If counsel desire, they may speak to me about costs.

Motion granted in part.

Tab B