

Federal Court



Cour fédérale

Date: 20140103

Docket: T-1784-06

Citation: 2014 FC 2

Ottawa, Ontario, January 3, 2014

PRESENT: The Honourable Mr. Justice de Montigny

BETWEEN:

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

Plaintiffs

and

**MARLBORO CANADA LIMITED AND
IMPERIAL TOBACCO CANADA LIMITED**

Defendants

REASONS FOR ORDER AND ORDER

[1] On November 8, 2010, I released my Reasons for Judgment and Judgment in this matter, in which the Plaintiffs, Philip Morris and Rothmans, Benson & Hedges Inc., were successful on the primary issues in dispute. In essence, I found that the Plaintiffs' "no-name" cigarette package did not infringe the Defendants, Marlboro Canada Limited and Imperial Tobacco Canada Limited [ITL]'s MARLBORO word mark. As a result, the Defendants' counterclaim - seeking a declaration that the sale, distribution, and advertising in Canada of the Plaintiffs' no-name cigarettes constitute

an infringement of the Defendants' rights in the registered trade-mark MARLBORO - was dismissed, as was their counterclaim requesting that the Plaintiffs' relevant trade-mark registrations be declared invalid. On the other hand, the Plaintiffs' allegations that the 1996, 2001 and 2007 versions of the Defendants' own Marlboro package infringe their copyright in the "Marlboro Red Roof label" or their rights in the Agreement memorialized between the parties in 1952 was dismissed, as was their claim that the MARLBORO trade-mark owned by ITL is invalid.

[2] The Plaintiffs sought an award of costs, while the Defendants submitted that the most equitable and efficient way to address the question of costs was to postpone the determination of costs until the resolution of their appeal with the Federal Court of Appeal. Despite being well aware that the allocation of costs was susceptible to be repealed in the event the appeal of the Defendants was successful, I decided to proceed with an award of costs on the basis of the well established principle that the filing of a notice of appeal does not operate as a stay of execution of the judgment under appeal. The Defendants eventually pursued an appeal of my Order on costs, and both sides filed memoranda of fact and law in that proceeding, prior to the appeal being stayed by the Federal Court of Appeal.

[3] On June 29, 2012, the Federal Court of Appeal reversed in part the trial decision, setting aside the judgment of this Court with respect to the issue of infringement of the Defendants' MARLBORO word mark and declaring that the no-name packages (red, gold and silver version) of the Plaintiffs, infringed ITL's rights in the registered trade-mark MARLBORO pursuant to section 20 of the *Trade-mark Act*, RSC, 1985, c T-13. Given that no argument was presented to the Federal Court of Appeal in respect of ITL's right to elect between damages or an accounting of profits, pre-

judgment interest and the appropriate amount of ITL's costs in this Court, these issues were referred back to me for determination.

[4] Leave to appeal to the Supreme Court of Canada was dismissed on March 21, 2013, thereby making the decision of the Federal Court of Appeal final. As a result, the appeal by ITL of my decision on costs became academic, and the notice of appeal was withdrawn.

[5] Not surprisingly, the parties are now taking the exact opposite view they had taken on the issue of costs before the decision of the Federal Court of Appeal was rendered. Counsel for the Defendants now argue that costs should be allocated on a lump sum basis in the amount of \$755,000, representing 33% of its legal costs, whereas the Plaintiffs are of the view that the only appropriate level at which to assess costs in this proceeding is Column III of Tariff B, or, if a lump sum approach is adopted by the Court, that no more than 15% of the total allowable legal fees incurred by the Defendants should be awarded. As for disbursements, the Defendants claim \$314,289.36, while the Plaintiffs are of the view that this amount should be discounted or reduced by \$196,000 to take into account, *inter alia*, \$160,000 in "wasted and unnecessary fees" relating to Dr. Chakrapani's survey evidence.

[6] I have already outlined the principles governing the allocation of costs in my earlier decision, as well as the reasons why a lump sum cost award is appropriate in the circumstances of this case. I see no reason to depart from that reasoning. In particular, I am still convinced that an award under Tariff B, even at the highest point of Column V, would be inadequate to reflect and come close to the actual costs related to the litigation. This was a complex and important case for

both parties, raising difficult questions of fact and law. This factor, in and of itself, militates for an increased award of costs, and this is as much true now as it was before the Federal Court of Appeal partially reversed the trial decision. I am in full agreement with my colleague Justice Hughes when he stated in *Air Canada v Toronto Port Authority*, 2010 FC 1335, at para 15, that “...a successful party should not be penalized just because they become engaged in, or had to resort to, litigation”.

[7] Contrary to the situation prior to the Federal Court of Appeal’s decision, there is no need to reduce the costs to which the successful parties are entitled on the basis that they were not successful on all counts. The Plaintiffs are correct in stating that the Federal Court of Appeal upheld the validity of their ROOFTOP trade-mark registrations and dismissed the Defendants’ claims of infringement pursuant to sections 19 and 22 of the *Trade-mark Act*. That being said, the Defendants were overwhelmingly successful when considering the case as a whole. The Defendants were successful in establishing that their word mark MARLBORO was infringed pursuant to section 20 of the *Trade-mark Act*, and were granted a permanent injunction restraining the Plaintiffs from directly or indirectly selling, distributing, and/or advertising in Canada cigarettes or other tobacco products in, or in association with, the no-name packaging at issue in the proceedings. Moreover, the Plaintiffs failed to convince both this Court and the Federal Court of Appeal that the ITL packages of 1996, 2001 and 2007 infringed their copyright in the Marlboro Red Roof label, and both Courts once again dismissed the Plaintiffs’ attack on the validity of the MARLBORO mark owned by the Defendants. Indeed, the Plaintiffs were only successful on two minor aspects of the litigation, i.e. the validity of their ROOFTOP trade-mark registrations and the dismissal of the Defendants’ claims of infringement pursuant to sections 19 and 22 of the *Trade-mark Act*.

[8] This is clearly not a case where success was evenly divided, or where the losing party nevertheless prevailed on important and substantial matters. I agree with counsel for the Defendants that, at the end of the day, it did not matter much whether their MARLBORO word mark was infringed pursuant to section 19, 20 and/or 22 of the *Trade-mark Act*, as long as an injunction was granted for an infringement of either one of these sections. As for the validity of the ROOFTOP trade-mark registrations, it was raised as a last minute argument by the Defendants as a flip side to the attack on the MARLBORO word mark and was not even considered by the Federal Court of Appeal as a result of its finding that the registrations invoked by the Plaintiffs were of no avail and did not constitute an absolute defence to the Defendants' claim that the actual combination of elements used on the no-name package constitutes an infringement.

[9] Moreover, I reiterate what I already stated in my earlier decision, that a party does not have to succeed on every argument in order to obtain its costs. As the Federal Court of Appeal stated in *Sunrise Co. v Lake Winnipeg (The)*, [1988] FCJ No 1009, at 2:

While it is true that the appeal on liability, though unsuccessful, occupied the greater part of the time of the hearing, I do not think that that is any reason for departing from the general rule and depriving the successful appellants of their costs. To do so would be to set an unfortunate precedent, which might result in much lost judicial time making fine distinctions. Unless there has been an abuse of the court's process, a successful appellant, like a successful plaintiff, should not be penalised simply because not all the points he has taken have found favour with the court. I would accordingly give the appellants the costs of their appeal in the ordinary way, subject only to the exception which follows.

See also: *Canada v IPSCO Recycling Inc.*, 2004 FC 1083, at para 37.

[10] The Defendants also seek to reserve judgment on the possible application of Rule 420 of the *Federal Courts Rules*, SOR/98-106, following a referral as to damages or an accounting of profits,

based on a settlement offer made by the Defendants prior to the trial of this action. On December 14, 2009, the Defendants made a written offer to settle on the following terms: 1) the Plaintiffs shall discontinue their action; 2) the Plaintiffs shall consent to judgment in connection with paragraphs 21(a), (b) and (c) of the Defendants' Counterclaim; and (3) the Plaintiffs shall agree to payment of the sum of \$20,000,000.00 for damages or profits to which the Defendants are entitled, together with interest and costs.

[11] Counsel for the Plaintiffs submit that any determination with respect to obtaining judgment at least as favourable as the settlement offer put forward by the Defendants could and should have been obtained by the Defendants prior to assessing costs, so that any and all relevant matters could be disposed of by the Court in one proceeding. The Defendants, it is argued, cannot ask the Court to adjudicate on the issue of costs now and then subsequently ask the Court to revise that ruling based on materials or information that they ought to have provided to the Court prior to commencing this assessment. In any event, counsel for the Plaintiffs submit that, irrespective of any amount that may be awarded to the Defendants in damages or profits accounted for, the Defendants have failed to obtain judgment that was at least as favourable as the terms of their offer to settle.

[12] There is no authority in support of that proposition, and it is quite telling that counsel for the Plaintiffs took the exact opposite position in their earlier submissions in that respect. When a case is bifurcated and the issue of damages or profits accounted for is decided separately and subsequently to the claim(s) of infringement, it is not uncommon to decide the allocation of costs prior to the eventual application of Rule 420 of the *Federal Courts Rules*. A recent example of such a course of

action is found in the decision of Justice Gauthier (previously of this Court) in *Bauer Hockey Corp v Easton Sports Canada Inc.*, 2010 FC 361 where she wrote in her Order for costs:

UPON noting that in light of the offer of settlement made by the Defendant in October 2009, Rule 420 may come into play depending on the decision on the monetary remedy made on reference.

[...]

Moreover, in light of the second settlement offer made on December 1, 2009, it may be appropriate to review the amount of costs, if any, to which the Plaintiffs would be entitled for what has been referred to as period 3, which runs from December 1, 2009 to April 1, 2010. Moreover, as agreed by the parties, it is appropriate for this Court to determine the amount of the costs to which each party may be entitled at least in respect of the proceedings up to and including April 1, 2010;

UPON determining that in accordance with my judgment, the Plaintiffs are certainly entitled to be paid forthwith their costs and disbursements in respect of the first period (ending on and including October 9, 2009)...

Order of Madam Justice Gauthier, T-237-02, September 22, 2010.

[13] Whether the judgment to be obtained by the Defendants will be, as a matter of fact, at least as favourable as the terms of their offer to settle, is obviously an open question. It would be inappropriate to speculate as to the outcome of the referral, and it would clearly be premature to determine at this stage whether the amount that may be awarded to the Defendants in damages or profits accounted for will be at least as favourable as the terms of their offer to settle.

[14] Counsel for the Plaintiffs also submitted that an amount of at least \$255,000 should be excluded from any allowable legal fees prior to a percentage lump sum being applied. In particular, they challenge: a) two invoices cumulatively totalling more than \$60,000 in legal fees which pre-date the commencement of this action and which include survey related fees that are not recoverable

as they relate to an action which had not even been commenced; b) legal fees in the amount of \$125,000 that relate to post trial matters; c) “several hundred hours” of legal fees for historical investigation into the origin of the registration defence, which is excessive in view of the role that defence played in the proceeding; and d) legal fees in the amount of \$40,000 incurred with respect to an “after dark” survey that was never tendered into evidence by the Defendants.

[15] I agree with counsel for the Defendants that none of these reductions are warranted. The legal fees incurred prior to the commencement of this action by the Plaintiffs pre-date it by only two months, and, more or less coincide with the launch of the ROOFTOP products on the market. As for the discussions with Dr. Chakrapani relating to the surveys to be conducted, they were apparently in furtherance of what would materialize as the Defendants’ counterclaim and were very much part of their litigation strategy. As such, these fees were clearly connected to this proceeding and are fully recoverable.

[16] The same is true of the fees that post-date the trial, since they relate to the first allocation of costs. As mentioned in my earlier decision, the Defendants had suggested that the determination of costs be deferred until the appeal and the cross-appeal had been dealt with, but the Plaintiffs rejected this proposal; it is now disingenuous for the Plaintiffs to argue that these costs are not recoverable.

[17] The reduction sought for the legal fees incurred in relation to the historical investigation into the origin of the registration defence and with respect to the “after dark” survey must similarly be rejected. Both of these matters were clearly material to the trial, and the Plaintiffs’ registration of its ROOFTOP design marks was indeed presented as a full and complete answer to the allegation of

infringement made by the Defendants. Considering the paucity of case law on this issue and the possible impact of that argument, it was not excessive to spend what amounts to 0.01% of the legal fees on that topic.

[18] Finally, the Plaintiffs submit that the disbursements incurred by the Defendants with respect to Dr. Chakrapani's survey evidence, which total \$160,000, should be disallowed in their entirety, as well as the legal fees of more than \$135,000 incurred in relation to this survey evidence. The Plaintiffs are of the view that the two surveys commissioned from Dr. Chakrapani - a consumer study and a retailer study - were unnecessary, of little to no utility to the Court and were given very little weight as a result.

[19] It is well established that expert witness disbursements can also be reduced or disallowed where the Court finds that the expert report requisitioned was unnecessary or the contents useless: *Merck & Co v Canada (Minister of Health)*, 2007 FC 312, at para 51. In the case at bar, I am prepared to accept that the survey evidence of Dr. Chakrapani was of some utility, not so much to measure "source confusion" (i.e. consumers and retailers being confused as to the source of the Rooftop products) but in establishing that a number of consumers refer to the Plaintiffs' no-name product as Marlboro, thereby jeopardizing the distinctiveness of the Defendants' MARLBORO mark. This confusion was a key factor underlying the ultimate finding of the Federal Court of Appeal that the Plaintiffs' use of the ROOFTOP design trade-mark in association with cigarettes infringes the Defendants' rights under the *Trade-marks Act* to their registration of the word MARLBORO. As such, I am unable to conclude that Dr. Chakrapani's evidence was irrelevant, unnecessary or devoid of any utility.

[20] As for the legal fees associated with that evidence, the Defendants correctly point out that one cannot rely on a spreadsheet that captures all of the date and time entries for dockets entered by Defendants' counsel that refer to Dr. Chakrapani's evidence to conclude that those legal fees relate exclusively to that task. There is no way to know, for example, what proportion of an entry described as "reviewing past correspondence, expert affidavits and documents" was devoted to Dr. Chakrapani's expert report. As a result, such an exercise is unreliable and I decline to reduce the amount claimed as legal fees by the Defendants on that basis.

[21] In conclusion, and after having carefully considered the oral and written submissions of both parties, ITL is awarded \$755,000.00 for costs, which represent approximately one third of the actual costs incurred for the trial, and \$314,289.36 for disbursements, for a total of \$1,069,289.36. These amounts include applicable taxes and interest. These costs and disbursements shall be payable forthwith, and are subject to the potential application of Rule 420 of the *Federal Courts Rules* once the decision on the monetary remedy has been made.

ORDER

THIS COURT ORDERS that the Defendants be awarded a total of \$1,069,289.36 in legal costs and disbursements payable forthwith. This amount is also subject to the potential application of Rule 420 of the *Federal Court Rules*, once a decision on the monetary remedy has been rendered.

"Yves de Montigny"

Judge

FEDERAL COURT
SOLICITORS OF RECORD

DOCKET: T-1784-06

STYLE OF CAUSE: PHILIP MORRIS PRODUCTS S.A. AND ROTHMANS,
BENSON & HEDGES INC. v MARLBORO CANADA
LIMITED AND IMPERIAL TOBACCO CANADA
LIMITED

PLACE OF HEARING: VANCOUVER, BRITISH COLUMBIA
BY TELECONFERENCE

DATE OF HEARING: OCTOBER 11, 2013

**REASONS FOR ORDER AND
ORDER:** de MONTIGNY J.

DATED: JANUARY 3, 2014

APPEARANCES:

Kelly Gill
Simon Hitchens

FOR THE PLAINTIFFS

François Guay

FOR THE DEFENDANTS

SOLICITORS OF RECORD:

Gowling Lafleur Henderson LLP
Barristers and Solicitors
Toronto, Ontario

FOR THE PLAINTIFFS

Smart & Biggar
Barristers and Solicitors
Montréal, Québec

FOR THE DEFENDANTS