Federal Court | Cour fédérale

Date: 20150323

Docket: T-1784-06

Citation: 2015 FC 364

Ottawa, Ontario, March 23, 2015

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

ORDER AND REASONS

[1] Pursuant to the Federal Court of Appeal's decision in *Marlboro Canada v Philip Morris Products SA*, 2012 FCA 201 [*Marlboro FCA*], this Court is called upon to determine whether Marlboro Canada Limited and Imperial Tobacco Canada Limited are entitled to elect between accounting and damages, and to determine the basis for pre-judgment interest.

[2] For the reasons set out below, I have come to the conclusion that the Defendants should be entitled to elect between damages and accounting of profits.

I. **Facts**

[3] The history and facts of this case have been thoroughly canvassed in the trial decision (*Philip Morris Products SA v Marlboro Canada Limited*, 2010 FC 1099), and there is accordingly no need to repeat them here. I shall therefore limit myself to a brief overview.

[4] The Defendants/Plaintiffs by Counterclaim (the Defendants) are Marlboro Canada Limited and Imperial Tobacco Canada Limited (ITL). Marlboro Canada owns the registered trade-mark MARLBORO, registration TDMA 55,988 (the 988 Mark), and Imperial Tobacco Canada is the majority shareholder and exclusive licensee of the 988 Mark. ITL is the largest tobacco company in Canada.

[5] The Plaintiffs/Defendants by Counterclaim (the Plaintiffs) are Philip Morris Products S.A. (PM), a Switzerland-based corporation wholly owned by Philip Morris International, and Rothmans, Benson & Hedges Inc. (RBH), a Canadian corporation also wholly owned by Philip Morris International. RBH is the second-largest tobacco company in Canada.

[6] The Marlboro brand is the world's top-selling cigarette product, and the most well-known brand of Philip Morris – outside of Canada. In 1924, Philip Morris' predecessor-in-title assigned the rights to the Mark to ITL's predecessor-in-title. The Mark was registered in Canada in 1932 (as the 988 Mark), and ITL is now the exclusive licensee of this Mark. The result is that PM's

biggest competitor owns the Canadian rights to the name of its international best-selling brand. Without the right to use the word "Marlboro", Philip Morris continued to produce cigarettes with similar packaging to the internationally-known Marlboro packaging, using the "Matador" and "Maverick" names. These products met with limited market success.

[7] In July and August 2006, Philip Morris launched a new "no-name" brand (also called the ROOFTOP design brand). This was also the first time Philip Morris' American blend cigarettes were available in Canada, and it was also the first time that a cigarette brand carried no name. The packaging used many of the usual design elements of the worldwide Marlboro brand (including the ROOFTOP design itself), many of which are registered and owned by Philip Morris. In September 2006, ITL sent a "cease and desist" letter. On October 6, 2006, Philip Morris launched proceedings in this Court for a declaration of non-infringement. The Defendants counterclaimed, seeking remedies for infringement of the 988 Mark. The Plaintiffs later amended their claim to allege that the Defendants' registered designs for their Marlboro packages infringe Philip Morris' rights both under the *Copyright Act*, RSC 1985, c C-42, and under a 1952 agreement; and the Defendants in turn challenged the validity of the Plaintiffs' registered Rooftop designs. Finally, the Plaintiffs challenged the validity of the 988 Mark itself.

[8] At trial, it was found that Philip Morris' Rooftop Design for the no-name brand packaging did not infringe any of ITL's rights in the 988 Mark, which was itself valid. Therefore, the Defendants' counterclaim of trade-mark infringement and its challenge to the validity of the Plaintiffs' design registrations were dismissed. Moreover, it was determined that

the Defendants' Marlboro packages did not infringe Philip Morris' copyright in its "Red Roof" design. Both parties appealed that decision.

[9] The Federal Court of Appeal upheld the trial judge's findings except on the question of whether Philip Morris' no-name brand package infringed ITL's rights in the 988 Mark. Based on the survey evidence presented by both parties, it was found at trial that a number of relevant consumers associated Philip Morris' no-name product with "Marlboro" but that there was nevertheless no likelihood of source confusion. The Court of Appeal differed on that point and found that in a dark market where the trade-marks are not in view, the fact that consumers will use the same name to refer to two different products offered by two different manufacturers will necessarily result in confusion as to source "since consumers expect that products of the same kind, which they can refer to by the same name and buy through the same channels, will come from the same source": *Marlboro FCA*, above, at para 84.

[10] Having found that Philip Morris' no-name packaging did infringe ITL's rights under the 988 Mark, the Federal Court of Appeal granted a permanent injunction against Philip Morris using that packaging, and ordered Philip Morris to deliver up or destroy all offending packaging. The Court remitted three matters back to the trial judge for determination: (1) ITL's right to elect between damages and accounting of profits; (2) pre-judgment interest; and (3) the appropriate amount of ITL's costs in the Federal Court. Leave to appeal to the Supreme Court was refused on March 20, 2013: [2012] SCCA No 413.

[11] Following the Federal Court of Appeal judgment in June 2012, Philip Morris complied with the injunction and destroyed all infringing packaging. In July 2012, it quickly re-launched the ROOFTOP brand, using the same design but adding the ROOFTOP name clearly marked on the package.

[12] In May 2014, ITL initiated a new claim in Federal Court (*Marlboro Canada Ltd v Philip Morris Brands SARL*; File T-1280-14), alleging that this re-launched ROOFTOP brand also infringes the 988 Mark.

[13] The first outstanding issue from the Federal Court of Appeal decision, on costs, was decided on January 3, 2014: see 2014 FC 2. That decision was recently upheld on appeal: 2015 FCA 9.

II. Issues

[14] The parties agree that the following issues are to be decided at this stage:

A. Is ITL entitled to elect between damages and an accounting of profits?

B. What is the appropriate award of pre-judgment and post-judgment interest?

III. Analysis

A. *Is ITL entitled to elect between damages and an accounting of profits?*

[15] An award of an accounting of profits is an equitable remedy, the purpose of which is to compel the wrongdoer to divest wrongful earnings to the party who was wronged. This is to be

contrasted to damages, the aim of which is to put the injured party in the position it would have been in had the infringement not occurred. Of course, the Court cannot award both types of relief in the same judgment: *3925928 Manitoba Ltd v 101029530 Saskatchewan Ltd*, 2005 FC 1465, at paras 16-17. The difference between these two alternative remedies has been aptly put by Lederman J in *Bayer Aktiengesellschaft v Apotex* (2001), 10 CPR (4th) 151 (ONSC), at para 12, aff'd (2002) 16 CPR (4th) 417 (ONCA) [*Bayer*] (citing *Beloit Canada Ltd v Valmet Oy* (1994), 55 CPR (3d) 433 (FCTD)):

> The remedy of an accounting of profits is equitable in origin (…) Like an award of damages, an accounting of profits is designed to compensate the patentee for the wrongful use of its property. While the goal of each remedy is the same, the underlying principles are very different. An award of damages seeks to compensate the plaintiff for any losses suffered by the plaintiff as a result of the infringement. The amount of profits earned by the infringing party is irrelevant. An accounting of profits, on the other hand, aims to disgorge any profits improperly received by the defendant as a result of its wrongful use of the plaintiff's property. Such profits, having been earned through the use of the plaintiff's property, rightly belong to the plaintiff. The aim is to remedy the unjust enrichment of the defendant by transferring these profits to their rightful owner, the patentee.
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> (See also *Laboratoires Servier v Apotex Inc*, 2008 FC 825, at paras 503-504, aff'd 2009 FCA 222 [*Servier*])

[16] The power of the Court to award equitable remedies in respect of trade-mark infringement, including an injunction and an accounting of profits, has been legislated in Canada and is now found in section 53.2 of the *Trade-marks Act*, RSC 1985, c T-13, which reads as follows (version in force during the litigation):

Power of court to grant relief	Pouvoir du tribunal d'accorder une réparation
53.2 Where a court is satisfied, on application of any interested person, that any act	53.2 Lorsqu'il est convaincu, sur demande de toute personne

has been done contrary to this Act, the court may make any order that it considers appropriate in the circumstances, including an order providing for relief by way of injunction and the recovery of damages or profits and for the destruction, exportation or other disposition of any offending wares, packages, labels and advertising material and of any dies used in connection therewith.	intéressée, qu'un acte a été accompli contrairement à la présente loi, le tribunal peut rendre les ordonnances qu'il juge indiquées, notamment pour réparation par voie d'injonction ou par recouvrement de dommages-intérêts ou de profits, pour l'imposition de dommages punitifs, ou encore pour la disposition par destruction, exportation ou autrement des marchandises, colis, étiquettes et matériel publicitaire contrevenant à la présente loi et de toutes matrices employées à leur égard.

[Emphasis added]

[17] The Supreme Court and this Court have consistently recognized that as an equitable remedy, an award of profits serves one or both of two equitable purposes: a restitutionary purpose, and a non-punitive, prophylactic purpose aimed at deterring the wrongdoer and others who might emulate his infringing actions: see *Strother v 3464920 Canada Inc*, 2007 SCC 24, at paras 74-77; *Varco Canada Ltd v Pason Systems*, 2013 FC 750, at para 398 [*Varco*]. Either one of these purposes will suffice; indeed, ordering a wrongdoer to hand over profits illegally obtained to the person who has been wronged will generally serve a deterrence purpose. To that extent, it is not entirely accurate to describe an accounting of profits as being "compensatory" in nature; its most direct effect is to put the wrongdoer in the position he would otherwise have been if he had not committed any wrong, rather than to restore the wronged party to the position in which he would have otherwise been (see *Monsanto Canada v Rivett*, 2009 FC 317, at paras 19-21, varied in part 2010 FCA 207).

[18] The parties agree that there is no presumptive entitlement to elect, and that the remedy is discretionary, but they disagree as to the extent of the Court's discretion. The Defendants argue that the remedy is ordinarily awarded unless there are special circumstances, whereas the Plaintiffs argue that the remedy is completely discretionary and the Court must simply "balance the equities" and decide whether the remedy is appropriate in the circumstances.

[19] I am not convinced that I need rule on these fine distinctions for the purposes of the case at bar. It is quite clear from a careful reading of section 53.2 of the *Trade-marks Act* that none of the remedies are presumptive; on the contrary, they are to be granted when the Court considers it "appropriate in the circumstances". None of the remedies are an automatic entitlement. I believe that the following quote from the Federal Court of Appeal in *Merck & Co v Apotex*, 2006 FCA 323, at para 127 [*Merck*], regarding remedies under the *Patent Act*, RSC 1985, c P-4, is therefore still valid law with respect to remedies under the *Trade-marks Act*:

> Once a patentee has successfully demonstrated infringement, the Court has the discretion to grant the patentee's choice of remedies pursuant to section 57 of the [*Patent Act*]. If a judge thereby refuses the award of an accounting of profits, damages are available pursuant to section 55. There is no presumption that the patentee is entitled to an election, rather a trial judge has complete discretion in deciding whether or not to grant this equitable remedy…

[20] This should not be read as giving the Court an untrammelled discretion to award or not any of the equitable remedies set out in section 53.2 of the *Trade-marks Act*. The Federal Court of Appeal also cautioned against an arbitrary use of the discretion bestowed on the Court:

> The fact that equitable remedies are discretionary means that the respondent cannot elect an accounting of profits as of right. That said, a discretionary remedy is not an arbitrary remedy. In the absence of proof of a bar to equitable relief, a claimant can expect

> to be granted the remedy it seeks in accordance with the principles governing its availability. Nor does the issue of a bar to equitable relief require the claimant to disprove every ground which could possibly disentitle it to that relief. It is not open to a party to argue that its opponent has not sufficiently disproven a given bar.
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> (*Apotex v Bristol-Myers Squibb*, 2003 FCA 263, at para 14)

[21] In light of that jurisprudence, I shall therefore weigh the relevant factors in light of the equitable purposes of the remedy, bearing in mind that the Defendants have no right to an accounting of profits but that they should not be denied that option in the absence of any compelling reasons. There is no set list of factors, and the relevant list will vary according to the circumstances of each case: see *Merck*, above, at para 133. In the case at bar, the Defendants have identified five factors to be considered by the Court, while the Plaintiffs came up with a "more complete list" of ten factors. A close look at all these factors suggests, however, that there is a lot of commonality between the two lists and that the difference is more cosmetic than substantial, the Defendants having simply grouped many of the factors listed by the Plaintiffs under more generic categories. Of course, none of the factors is controlling, in and of itself.

(1) The claimant's conduct

[22] The first factor to be considered is the claimant's (in this case the Defendants') conduct. Under this factor, I include the Defendants' delay in commencing the proceedings, the delay in bringing the matter to trial, clean hands, and the fact that the Defendants kept selling and promoting their MARLBORO cigarettes. As for delay, it would clearly be inequitable to allow a plaintiff to recover profits made by a defendant while the plaintiff was aware of the infringement for some time and did nothing about it. This was clearly not the case here, as ITL sent a cease

and desist letter to PM two months after PM launched its infringing no-name product, and counterclaimed for infringement (after PM commenced proceedings for a declaratory judgment of non-infringement) within three months of the launch of PM's product. There was no unusual or undue delay in bringing the matter to trial either: the case proceeded to trial a little over three years after the proceedings were initiated, and it could hardly have proceeded more rapidly considering the complexity and the novelty of the issues raised.

[23] There is similarly no allegation by the Plaintiffs that the Defendants did not come to the Court with clean hands. Finally, it is not in dispute that ITL has been selling cigarettes in association with its trade-mark MARLBORO almost without interruption since a predecessor-in-title of ITL acquired from PM the rights to the trade-mark MARLBORO. This is to be contrasted to the situation in *Merck & Co v Apotex*, 2006 FC 524, rev'd on other grounds 2006 FCA 323, where my colleague Justice Hughes exercised his discretion to disentitle the successful plaintiff from an accounting of profits considering that the action had taken ten years to get to trial, and that during that period, the plaintiff had stopped promoting its product and simply left the market to the defendant.

[24] All these factors clearly militate in favour of an accounting of profits, and indeed the Plaintiffs do not contest any of these arguments.

(2) Complexity of an accounting of profits

[25] Under this factor, the Court is essentially concerned with the proportionality of the accounting remedy in view of the length or extent of the infringing activity and the likely benefit

of the accounting exercise. In an accounting of profits, it must first be shown that the infringer's profits are causally related to the act of infringement, and then the appropriate quantification or apportionment of profits attributable only to the infringing activity must be determined: *Monsanto Canada Inc v Schmeiser*, 2004 SCC 34, at paras 101-105; *Merck & Co v Apotex*, 2013 FC 751, at paras 83-84; *Varco*, above, at paras 416-417.

[26] Allowing a successful plaintiff to elect an accounting of profits may be inappropriate where the accounting exercise would be complex and contentious, and where a reference on profits would result in a lengthy and complicated procedure and related disputes which would complicate and further delay a final resolution of the matter: *Servier*, above, at paras 507-508; *Eurocopter v Bell Helicopter Textron Canada Ltée*, 2012 FC 113, at paras 409-416, aff'd 2013 FCA 219 [*Eurocopter*].

[27] It is clear that the type of analysis necessary under the differential profits approach, where profits are allocated according to the value contributed to the Defendants' wares by the patent, would be complex and contentious for a number of reasons. First, the infringing, unregistered package designs enumerated in Schedule "A" to the Federal Court of Appeal's judgment are a composite of non-infringing, valid, registered trade-marks and other word and design matter. Tracing which profits of the Plaintiffs are attributable to the infringing aspects of these packages rather than the use of the Plaintiffs' registered trade-marks or other non-infringing matter will be extremely difficult and contentious. The causal connection is further undermined by the fact that sales remained at the same levels after the launch of PM's redesigned ROOFTOP packaging a month after the decision of the Federal Court of Appeal. Of

course, whether or not this new redesigned ROOFTOP packaging infringes the Defendants' trade-marks is very much a live issue, as the Defendants have issued a Statement of Claim on May 23, 2014 in which it is alleged that the Plaintiffs' ROOFTOP packaging also constitutes infringement of the Defendants' MARLBORO trade-mark. This claim will further complicate what would already be a complex accounting exercise. If the redesigned packaging is precluded from consideration as a non-infringing alternative given the Defendants' pending claim, the Plaintiffs will clearly be negatively impacted in making a full defence in the accounting exercise. If, in the alternative, the reference on an accounting of profits is delayed pending final determination of the Defendants' new claim, the Plaintiffs will have to live under a cloud of uncertainty as to the quantum of their financial liability in this proceeding for many years.

[28] A second reason why the circumstances of this case will make the apportionment issue very complex, are the limitations in time and market. The Plaintiffs argue that the Defendants are not entitled to any remedy for the period of 2010-2012, between the trial and the appeal decisions. The trial judge's declaration of non-infringement was valid until set aside: this is analogous to patent cases where the accounting was denied for the period between a trial and appeal judgment: see *JM Voith GmbH v Beloit Corp* (1993), 47 CPR (3d) 448, at 474 (FCTD), var'd but not on this point (1997), 73 CPR (3d) 321, at 363 (FCA). Further, the Plaintiffs argue that the Court of Appeal's finding of a likelihood of confusion was premised upon dark market conditions which existed at the time of the appeal; given the nature of the infringing activity in this case, and the evolution of the dark market between 2006 and 2012 on a province-by-province basis, any monetary award must be circumscribed accordingly.

[29] For all of these reasons, an accounting of profits will no doubt be a complex and even protracted exercise. Complexity by itself, however, is rarely determinative of the entitlement to elect, except in cases where complexity is disproportionate to the amounts at stake. In *Eurocopter*, above, for example, the Court decided that the complexity of the accounting calculation – combined with the minimal amount of profits at stake – weighed heavily against the entitlement to elect (at paras 411-416). In the last resort, therefore, the Court is essentially concerned with the proportionality of the accounting remedy in view of the length or extent of the infringing activity and the likely benefit of the accounting exercise.

[30] The final amount of profits may be very small, depending on how the apportionment and causation issues are resolved. While the Defendants suggest the calculation will be a straightforward account of all of the Plaintiffs' profits from sales of no-name, the Plaintiffs suggest a number of ways to discount the amounts such that the final amount might well be negligible. Given this wide gulf between the positions, it is difficult at this stage to foresee what the final quantification of profit will be, and therefore to assess whether it is proportional to the complexity.

[31] Moreover, the calculation of damages is likely to be as complex as the accounting of profits. Just as with accounting, the causation/apportionment issues will likely be contentious in the calculation of damages. For example, while PM argues that the no-name brand had no impact whatsoever on ITL's Marlboro sales, ITL argues that the no-name brand diverted sales from other ITL brands. The parties will undoubtedly contest the basis for and quantification of ITL's damages with the same vigour as they will for accounting. As *Fox on Trade-marks* reminds us,

as complex as accounting may be, there is no guarantee that damages may not be even more complex:

> There have been some statements to the effect that the complicated nature and duration of an accounting weighs in favour of a damages assessment. This is a fallacy and each case must be determined in its own context.
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> […] it is not necessarily the case that the attempt to calculate damages will not result in a long drawn out reference. Indeed, if the experience in *Unilever PLC v. Proctor & Gamble Inc.* is any indication, a reference into damages can just as easily cause the sort of protracted litigation seen in *Beloit Canada Ltée v. Valmet Oy*.
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> (Kelly Gill, *Fox on Trade-marks and Unfair Competition*, loose-leaf (consulted on 9 March 2015), (Toronto: Carswell, 2002) ch 13 at para 13.7(g). See also *Bayer*, above, at para 34)

[32] For the above-mentioned reasons, I am therefore of the view that any calculation will be complex and contentious, whether in relation to assess the damages or in relation to the apportionment issue. For that reason, I am of the view that the complexity factor weighs neither for nor against the accounting of profits.

(3) The infringer's conduct

[33] Not surprisingly, the parties take diametrically opposite positions with respect to PM's conduct. The Plaintiffs argue that they acted at all times in good faith and believed their conduct was lawful. They claim that they scrupulously avoided any use of the MARLBORO wordmark in association with their no-name product, and that their intention was at all times to only use their registered design trade-marks and the copyright therein. They also claim that they made significant efforts to ensure that no confusion would arise, especially with their retailers, and that

their good faith is further demonstrated by the fact that they immediately complied with the injunction issued by the Federal Court of Appeal. The Defendants, on the other hand, accuse the Plaintiffs of wilful infringement as a calculated business risk. In their view, this was just one further attempt for PM to take back the rights in the trade-mark MARLBORO, and PM made the conscious decision not to put any brand name on its no-name package in the expectation that consumers would associate it with the name Marlboro.

[34] There is no doubt that the infringer's behaviour must be taken into consideration in the exercise of the Court's discretion. That being the case, we are very far from the situation in *Servier* where the infringer was fully aware that its conduct would constitute infringement and that it might be required to disgorge its profits. In fact, both parties are sophisticated commercial players, and every action they take is a calculated business risk.

[35] The question of whether the no-name brand caused confusion with the 988 Mark was a genuinely novel legal issue, and not a case of blatant infringement. It is no doubt true, as emphasized by the Defendants, that PM was hoping that the use of a no-name package in combination with various elements used by PM around the world in respect of its famous Marlboro brand, would convey to Canadian consumers an association between the no-name package and the MARLBORO trade-mark. This is a far cry from an intention to infringe, however. In the case at bar, PM did not take the same kind of risk as the defendants in *Varco*, who knew the patent infringement was blatant and the only defence would be patent invalidity: *Varco*, above, at paras 407-408. Rather, PM's conduct raised a novel infringement issue on which the trial and appeal courts disagreed. Since the legal basis for infringement was far from

obvious, PM's conduct was not egregious, and so the deterrence function of accounting would not be served in the case at bar. As a result, this factor weighs nominally against allowing the accounting remedy.

(4) The claimant's damages

[36] The claimant's damages are usually not relevant to the question of the entitlement to elect, since the objective of an accounting of profits is to restore improperly received profits to their rightful owner; as already mentioned, the calculation is based on the profits wrongfully gained by the infringer, not on the losses suffered by the claimant. PM suggests, however, that the restitutionary purpose of accounting must be taken into account, and that if the claimant could never have earned the profits or was in no way harmed by the infringement, accounting would be an undue windfall to the claimant. Put another way, if the purpose of accounting is restitution for profits that should gave gone to the claimant, but the claimant could never have earned these profits on their own and were in no way harmed by the infringement, then accounting is not the appropriate remedy. The problem with this thesis is that it is not supported by any authority. In fact, these arguments were flatly rejected in *Apotex v Lundbeck*, 2013 FC 192, at para 271; and *Bayer*, above, at para 33, as pointed out by the Defendants. Indeed, it can be argued that it is precisely to address those situations where the infringement cannot be correlated to any damages for the infringed party that accounting for profits has been designed as a remedy.

[37] Moreover, the evidence with respect to the link between sales of no-name and sales of ITL's Marlboro is not at all clear. This is not a case where sales of the infringing product directly

undercut sales of the infringed product. The Plaintiffs claim that there is no evidence that sales were diverted from the Defendants or that the MARLBORO brand was harmed or suffered any damages or loss of profits as a result of the introduction or presence of the no-name product on the market. They rely for that proposition on a number of factors. First, they submit (based on confidential information) that the Defendants' sales of their Marlboro product have remained throughout at the same marginal level. Second, the market share of their new ROOFTOP product has remained substantially the same as the market share of the no-name product between 2010 and 2014. Moreover, the sales of no-name are in no way attributable to the brand's association with ITL's MARLBORO brand; rather, no-name sales came at the expense of other American super-premium blends owned by third parties such as CAMEL and WINSTON. Third, the parties' products are priced at different points in the market, the no-name and ROOFTOP products having been predominantly priced as a "super premium" product whereas the Defendants' MARLBORO product has been priced in the "premium" category. Fourth, the no-name product and the Defendants' MARLBORO product are products with different compositions (American blend v Virginia blend). Given these differences, the Defendants themselves apparently do not promote their MARLBORO product as an alternative to the ROOFTOP product.

[38] Of course, much of that evidence is disputed by the Defendants. They point out, in particular, that there is no evidence for the correlation between the no-name/ROOFTOP product and the WINSTON and CAMEL brands, and that PM's representative, Mr. Guile, had no information as to where the consumers of PM's no-name cigarette product came from. The Defendants also refer to various PM alternative products guides used to suggest to retailers PM's

brands as potential alternatives to third-party products, showing PM's ROOFTOP competing with two of ITL's brands as well as with WINSTON/CAMEL and another competitor's brand. Finally, the Defendants claim that the redesigned ROOFTOP packaging is insufficient to sever the mental link with MARLBORO and benefits from the "ramp up" sales of the infringing no-name product on the market for almost six years, such that it is impossible to know whether the market share of the redesigned product launched in July 2012 would be different had it not replaced the infringing no-name product.

[39] Those evidentiary issues are obviously not to be decided at the entitlement stage and must be determined at the quantification phase. They do undermine the Plaintiffs' argument, however, that the sales of their no-name product do not represent an unjust enrichment requiring a restitutionary remedy. When combined with the lack of authority in support of the "inequitable windfall" argument, this lack of a clear evidentiary record tending to show the absence of any such windfall somewhat favours an entitlement to elect an accounting of profits.

(5) Actual confusion

[40] The Plaintiffs argue that there has been no evidence that Canadian consumers were actually confused as to source, and that this weighs against allowing ITL to elect an accounting of profits. They rely for that proposition on two cases, *Mr Submarine Ltd v Amandista Investments Ltd* (1987), 19 CPR (3d) 3 (FCA) [*Mr Submarine*] and *Drolet v Stiftung Gralsbotschaft*, 2009 FC 17 [*Drolet*].

[41] First of all, it is not all clear that the Federal Court of Appeal limited its finding to one of "deemed infringement" based on a likelihood of confusion. While the trial judge explicitly found that there has been no confusion, the Federal Court of Appeal does not clearly state that there was an absence of actual confusion; indeed, nowhere in its analysis does it explicitly make the distinction between likelihood of confusion and actual confusion. The focus of its decision was name association, which was found sufficient in the unique circumstances of this case to infer confusion as to source. This is made crystal clear in the following paragraph of its decision:

> The result is that, as the trial judge found, a number of consumers refer to the PM's no-name product as Marlboro. This means that, in a dark market where the trade-marks are not in view, consumers will use the same name to refer to two different products offered by two different manufacturers. This must necessarily result in confusion as to source, since consumers expect that products of the same kind, which they can refer to by the same name and buy through the same channels, will come from the same source. It matters little whether this situation is characterized as confusion or reverse confusion, the result is the same.
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> (*Marlboro FCA*, above, at para 84)

[42] Unless one wants to revisit the liability finding of the Federal Court of Appeal, it is clear that it is the association between the no-name packaging and the name Marlboro in the minds of the consumer that was found to create confusion as to source and to contravene section 20 of the *Trade-marks Act*. It is that association that generated the unjust enrichment, and it does not matter whether ITL would have sold more of its products had PM not infringed ITL's rights in the trade-mark MARLBORO.

[43] As for the case law cited by the Plaintiffs, it is far from conclusive. First of all, the Federal Court of Appeal in the case at bar made no explicit finding of an absence of actual

confusion, contrary to the situation in *Mr Submarine*. More importantly, it does not appear that the issue of entitlement to accounting of profits was argued and discussed at any length either in *Mr Submarine* or in *Drolet*, and the circumstances in each of those two cases were radically different from those of this case.

[44] I fail to see, therefore, how this factor could weigh against an entitlement for the Defendants to elect an accounting of profits.

[45] All things considered, I am of the view that ITL should be allowed the right to elect an accounting of profits. None of the factors or "bars" to be considered in exercising the discretion to allow the remedy of accounting of profits preclude this option. As a result, if the Defendants do elect an accounting of profits after discovery of the Plaintiffs, the burden will be on the Plaintiffs to establish which portion of its profits was not made as a result of the infringement of the Defendants' rights.

B. *What is the appropriate award of pre-judgment and post-judgment interest?*

[46] The award of pre-judgment and post-judgment interest will depend on which remedy ITL elects.

[47] For an award of damages, ITL is entitled to pre-judgment interest, but the trial judge has discretion to determine the appropriate rate: see *Federal Courts Act*, RSC 1985, c F-7, subsection 36(2). It is by now well established that the interest should not be compounded, and that the rate should be calculated separately for each year since the beginning of the infringing activity at the

average annual bank rate, subject to the reference judge awarding compounded pre-judgment interest and/or interest at an elevated rate as an element of compensation: *Eli Lilly & Co v Apotex*, 2009 FC 991, at paras 667, 673-674 and Judgment, para 4; *Servier*, above, at para 513; *Bauer Hockey v Easton Sports Canada*, 2010 FC 361, at Judgment, para 3.

[48] While pre-judgment interest is typically awarded pursuant to section 36(2) of the *Federal Courts Act*, subsection 36(5) gives the Court discretion to disallow part or all pre-judgment interest if it considers it just to do so having regard to any relevant consideration. Since this was such a novel and unique case, it is equitable to give the Plaintiffs some relief for the period in which they relied on the trial judge's findings on non-infringement. Therefore, the pre-judgment interest award will exclude the period between the trial and appeal judgments.

[49] For an accounting of profits, pre-judgment interest is a "deemed secondary benefit", which the infringer must account for. The appropriate interest shall be determined during the reference as part of the accounting of profits: *Reading & Bates Construction Co v Baker Energy Resources Corp* (1994), 58 CPR (3d) 359, at 372-373 (FCA). Of course, the Plaintiffs shall have the right to argue before the reference judge about any constraints on the award with respect to pre-judgment interest, and shall have the opportunity of establishing how its illegal profits were subsequently used.

ORDER

THIS COURT ORDERS that:

1. The Defendants (ITL) are entitled to elect an accounting of profits of the Plaintiffs or all damages sustained as a result of the infringement of their rights in the registered trade-mark MARLBORO, after discovery of the Plaintiffs;

2. The Defendants shall be entitled to pre-judgment interest on the award of damages (if elected), not compounded, at a rate to be calculated separately for each year since the infringing activity began, but excluding the period between the trial and appeal judgments, at the average annual bank rate established by the Bank of Canada as the minimum rate at which it makes short-term advances to the banks listed in Schedule 1 of the *Bank Act*, RSC 1985, c B-1;

3. In the event that the Defendants elect an accounting of profits, interest shall be determined by the reference judge;

4. The Defendants shall be entitled to post-judgment interest not compounded, at a rate of 5% per annum, as established by section 4 of the *Interest Act*, RSC 1985, c I-15. This interest shall commence upon the final assessment of the monetary damage amount or profits amount, until then, pre-judgment interest shall prevail; and

5. The Defendants are awarded their costs.

"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:	MONTRÉAL, QUEBEC
DATE OF HEARING:	SEPTEMBER 24 AND 25, 2014
ORDER AND REASONS:	DE MONTIGNY J.
DATED:	MARCH 23, 2015

APPEARANCES:

Kelly Gill James Green	FOR THE PLAINTIFFS
François Guay Jean-Sébastien Dupont	FOR THE DEFENDANTS

SOLICITORS OF RECORD:

Gowling Lafleur Henderson LLP Barristers and Solicitors Toronto, Ontario	FOR THE PLAINTIFFS
Smart & Biggar Barristers and Solicitors Montréal, Quebec	FOR THE DEFENDANTS

Federal Court | Cour fédérale

Facsimile Transmittal Form / Formulaire d'acheminement par télécopieur

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3. **Name / Nom :**

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FROM / EXPÉDITEUR : Pauline Chartrand	**DATE : March 23, 2015**
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SUBJECT / OBJET :

Court File No. / N° du dossier de la Cour: T-1784-06

Between / entre: PHILIP MORRIS PRODUCTS S.A. ET AL v. MARLBORO CANADA LTD. ET AL

Enclosed is a true copy of the Order and Reasons for Order of Mr. Justice de Montigny dated March 23, 2015

REÇU / RECEIVED
MAR 23 2015
1000 DE LA GAUCHETIÈRE OUEST

COMMENTS / REMARQUES :

Pursuant to section 20 of the Official Languages Act all final decisions, orders and judgments, including any reasons given therefore, issued by the Court are issued in both official languages. In the event that such documents are issued in the first instance in only one of the official languages, a copy of the version in the other official language will be forwarded on request when it is available.

Conformément à l'article 20 de la Loi sur les langues officielles, les décisions, ordonnances et jugements définitifs avec les motifs y afférents, sont émis dans les deux langues officielles. Au cas où ces documents ne seraient émis, en premier lieu, que dans l'une des deux langues officielles, une copie de la version dans l'autre langue officielle sera transmise, sur demande, dès qu'elle sera disponible.

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