

**Federal Court of Appeal**



**Cour d'appel fédérale**

**Date: 20160411**

**Docket: A-450-15**

**Citation: 2016 FCA 111**

**CORAM: STRATAS J.A.  
WEBB J.A.  
GLEASON J.A.**

**BETWEEN:**

**ANNIE PUI KWAN LAM**

**Appellant**

**and**

**CHANEL S. DE R.L.  
CHANEL LIMITED AND CHANEL INC.**

**Respondents**

Heard at Toronto, Ontario, on April 6, 2016.

Judgment delivered at Ottawa, Ontario, on April 11, 2016.

**REASONS FOR JUDGMENT BY:**

**GLEASON J.A.**

**CONCURRED IN BY:**

**STRATAS J.A.  
WEBB J.A.**

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**REASONS FOR JUDGMENT**

**GLEASON J.A.**

[1] In this appeal the appellant seeks to set aside the September 18, 2015 decision of Justice Martineau of the Federal Court (2015 FC 1091) in which he conducted a summary trial, granted judgment in favour of the respondents, issued injunctive relief against three defendants, including the appellant, and ordered them to pay compensatory damages in the amount of

\$64,000.00, punitive damages in the amount of \$250,000.00 and the sum of \$66,000.00 in lieu of assessed costs by reason of their sale and offering for sale of counterfeit Chanel merchandise.

[2] For the reasons set out below, I would grant this appeal, without costs, and would remit the matter to the trial judge for re-determination in accordance with these Reasons.

I. Background

[3] In 2006, two previous actions were commenced against the appellant and a corporate co-defendant in relation to offering counterfeit Chanel merchandise for sale. The actions were settled, and the terms of the settlement were incorporated into two Federal Court Orders which enjoined the appellant and her co-defendant from:

1. offering for sale, displaying, advertising, selling, manufacturing, distributing or otherwise dealing in merchandise bearing any of the Chanel trade-marks; and
2. directing public attention to their wares in such a way as to cause or be likely to cause confusion in Canada between the counterfeit wares and the wares of the respondents, contrary to the provisions of section 7(b) of the *Trade-marks Act*, R.S.C.1985, c. T-13.

[4] Despite these orders, the appellant continued to sell knock-off Chanel merchandise through a business operated under the name of Lam Chan Kee. That business was run out of a condominium unit owned by the appellant and located in a strip mall in Markham, Ontario.

[5] In the present case, the Federal Court had before it evidence of acts of infringement through the offering for sale or sale of counterfeit merchandise at the Lam Chan Kee premises on

October 23, 2011, December 9, 2011, April 26, 2012 and June 2, 2013, when the greatest number of counterfeit goods were observed in the store by the respondents' investigator.

[6] Prior to September 2011, the appellant operated the Lam Chan Kee business through a company called Lam Chan Kee Company Ltd. [LCK Company]. The 2006 Federal Court consent Orders were issued against both the appellant and LCK Company.

[7] In the present case, the appellant claimed before the Federal Court that she had ceased her involvement with the business in September of 2011 shortly before the respondents discovered the ongoing acts of infringement. The appellant alleged that in September 2011 she transferred the Lam Chan Kee business to a numbered company that she had incorporated several years previously. She asserted that the numbered company was operated by her children. In May 2013, corporate filings were made showing the appellant's children as the officers and directors of the numbered company. The latest of these filings was made on May 28, 2013 and recorded that the appellant's daughter was the president of the numbered company.

[8] The trial judge did not accept the appellant's assertions and found that the appellant remained involved with the Lam Chan Kee business until 2013, but was ambiguous as to the date her involvement ceased.

[9] In paragraph 7 of the Reasons, the trial judge wrote:

On a balance of probabilities, the Court finds that despite any transfer of shares to [the appellant's children], LCK Company and [the appellant] continued to operate and control the Lam Chan Kee business until at least May 28, 2013.

[10] In paragraph 16, the judge stated:

The Court finds on a balance of probabilities that LCK Company continued to operate the Lam Chan Kee business until at least May 28, 2013, after which [the numbered company] must be held responsible for the infringing activities on the Premises. The Court further finds that [the appellant] continued to use the property as her own after the alleged transfer. There is also clear evidence on record suggesting that [the appellant] continued to control the business. Moreover, it is not clear whether staff were notified of the change in ownership. Furthermore, [the appellant] continued to be the owner and landlord of the Premises. It was [the appellant] who hired counsel, not [one of her children], when the present action was taken... Nor did [the appellant] talk to her children regarding the cease and desist letter that was delivered on December 9, 2011 to the operator of the Lam Chan Kee business on the Premises. While the Court comes to the conclusion that [the appellant] must be held personally liable for infringing activities on the Premises up and until May 28, 2013, together with the two corporate defendants, there is not enough evidence to support such a conclusion against the other individual defendant ... as I am not satisfied the latter was the controlling mind of the two corporate defendants or was personally involved in the infringing activities.

[11] However, in paragraph 19 of his Reasons, the trial judge found that the appellant and the two corporate defendants were engaged in “[ongoing] infringing activities ... until at least June 2, 2013”. In paragraph 22 of his Reasons, the trial judge made similar statements, writing that the appellant and the two corporate defendants “have offered for sale or sold counterfeit Chanel merchandise in at least four (4) instances (i.e. October 23, 2011, December 9, 2011, April 26, 2012 and June 2, 2013)”.

[12] The trial judge awarded compensatory damages on a nominal basis for each act of infringement, including the infringement on June 2, 2013 (later than the May 28, 2013 date mentioned by the trial judge in paragraphs 7 and 16) and found that each act merited an award of \$8,000.00. As the rights of both the trade-mark owner and Canadian licensee were violated, the trial judge held that each observed instance amounted to two acts of infringement. He therefore

calculated damages at \$64,000.00 (i.e. \$8,000.00 x 2 x 4). The trial judge held that the appellant and the two corporate defendants (who did not defend the action) were jointly and severally liable for these damages.

[13] The trial judge appears to have premised his punitive damages award on the basis that the appellant and the corporate defendants were all involved in the four acts of infringement as he made them jointly and severally liable for \$250,000.00 in punitive damages. His reasons for the punitive damages award, though, were quite sparse, so it is difficult to discern the precise basis for the award.

## II. Arguments of the Appellant

[14] The appellant submits that the trial judge erred in deciding to dispose of the action by way of summary trial as there were issues of credibility that required determination through a trial. She also says that the trial judge erred in awarding nominal damages and in assessing them at the level of \$64,000.00, especially as she was not found to have been involved in the June 2, 2013 act of infringement, which was by far the most serious of the four observed events. She also submits that the trial judge erred in principle in awarding punitive damages and in setting their quantum at \$250,000.00, which reflects a much higher amount, when compared to the quantum of the compensatory damages awarded, than has been recognized in the case law. The appellant also challenges the costs award, which she characterizes as being excessive in the circumstances. Finally, in her memorandum, the appellant appears to challenge some of the conclusions made by the trial judge concerning the appellant's involvement and responsibility for the infringements.

### III. Analysis

[15] I find no merit in the appellant's submission that the trial judge erred in electing to proceed by way of summary trial. The decision to proceed by way of a summary trial is a discretionary one and, accordingly, entitled to deference on appeal, absent a legal error:

*Manitoba v. Canada*, 2015 FCA 57 at paragraph 16, 470 N.R. 187; *Turmel v. Canada*, 2016 FCA 9 at paragraph 12, 262 A.C.W.S. (3d) 629.

[16] Here, the trial judge committed no reviewable error in finding that it was unnecessary to hold a trial and hear evidence in order to assess the appellant's credibility. There was ample basis for the judge to have rejected the appellant's version of events and to have found that there was no need for a full trial to be held in light of the convincing proof of infringement offered by the respondents' affidants and the paucity of the appellant's evidence. It is not simply because a defendant raises an unbelievable defence of denial in response to a motion for summary trial that the motion must be dismissed. Cases like the present, involving ongoing sales of counterfeit goods by a defendant that seeks to put forward a specious defence, are particularly well-suited to being decided by way of summary trial. Thus, the decision of the trial judge to proceed by way of summary trial discloses no reviewable error.

[17] I also find no merit in the appellant's submissions that it was inappropriate for the trial judge to have made a nominal damages award, to have set the nominal damages amount for each act of infringement at the level of \$8,000.00 or to have awarded damages to both the trade-mark owners and the licensee for each act of infringement. The authorities support a nominal damages

award in a case like this, where the defendants are uncooperative, proof of actual damages is difficult and it is hard to estimate the harm done to the trade-mark owner's goodwill through the sale of inferior quality counterfeit goods: *Ragdoll Productions (UK) Ltd. v. Jane Doe*, 2002 FCT 918 at paragraphs 37-38, 223 F.T.R. 112; *Louis Vuitton Malletier S.A. v. Yang*, 2007 FC 1179 at paragraph 43, 62 C.P.R. (4th) 362 [Yang]; *Louis Vuitton Malletier S.A. v. Singga Enterprises (Canada) Inc.*, 2011 FC 776 at paragraphs 127-135, 392 F.T.R. 258 [Singga]; *Louis Vuitton Malletier S.A. v. 486353 B.C. Ltd.*, 2008 BCSC 799 at paragraphs 54-67, [2008] B.C.W.L.D. 5075 [486353 B.C. Ltd.]; *Harley-Davidson Motor Company Group, LLC v. Manoukian*, 2013 FC 193 at paragraphs 39-43, 428 F.T.R. 191 [Harley-Davidson].

[18] Likewise there is significant authority to support an award of \$8,000.00 per act of infringement (adjusted as a result of inflation) and to support awarding damages to both the trade-mark owner and Canadian licensee in a case like the present: *Harley-Davidson* at paragraphs 41, 43; *Singga* at paragraphs 130, 133-134; *Yang* at paragraph 43; *Oakley, Inc. v. Doe*, 193 F.T.R. 42, 2000 CanLII 15963 (F.C.) at paragraphs 12-13; *486353 B.C. Ltd.* at paragraphs 59-60, 66-67.

[19] However, given the ambiguity in the trial judge's Reasons, it is impossible to discern what acts of infringement the appellant was found to have committed. Certain paragraphs of the Reasons can be read as a finding that the appellant is liable for all four instances of infringement whereas other paragraphs seem to indicate that the trial judge found the appellant responsible for the infringing activities only up to May 28, 2013 and thus to be exonerated from the most serious acts of infringement that occurred on June 2, 2013, when over 100 counterfeit items were found



on the Lam Chan Kee premises. The Reasons are therefore deficient as they do not allow this Court to discern what was decided.

[20] In *Canada v. Long Plain First Nation*, 2015 FCA 177 at paragraph 143, 388 D.L.R. (4th) 209, Justice Stratas of this Court recently summarized the principles applicable to assessing the adequacy of a trial judge's reasons in the following terms:

We are not to insist that courts explicitly address every last issue, set out the obvious or show how they arrived at their conclusion in a “watch me think” fashion: *R. v. R.E.M.*, 2008 SCC 51, [2008] 3 S.C.R. 3 at paragraphs 17 and 43-44; *R. v. Dinardo*, 2008 SCC 24, [2008] 1 S.C.R. 788 at paragraph 25; *R. v. Walker*, 2008 SCC 34, [2008] 2 S.C.R. 245 at paragraph 27. Instead, we are to adopt a very practical and functional approach to the adequacy of reasons: see, e.g., *R. v. Sheppard*, 2002 SCC 26, [2002] 1 S.C.R. 869 at paragraph 55; *R.E.M.*, above at paragraph 35; *Hill v. Hamilton-Wentworth Police Services Board*, 2007 SCC 41, [2007] 3 S.C.R. 129 at paragraph 101. Reasons must be read as a whole in their overall context, including the evidentiary record before the court, the submissions made, the issues that were live before the court and the fact that judges are presumed to know the law on basic points: *R.E.M.*, above at paragraphs 35 and 45. The main concern is whether the reasons, short as they may be, are intelligible or capable of being made out and permit meaningful appellate review: *Sheppard*, above at paragraph 25; *R. v. Gagnon*, 2006 SCC 17, [2006] 1 S.C.R. 621; *R.E.M.*, above at paragraph 35.

[21] Here, given the ambiguity in the findings regarding the extent of the appellant's involvement in the acts of infringement, the Reasons are not intelligible and, thus, the nominal damages award against the appellant cannot stand as it is impossible to know whether she is liable for three or four acts of infringement. Moreover, as the trial judge premised his liability determination on an adverse credibility finding, made after review of the rather extensive record, it would not be appropriate for this Court to step in and resolve the ambiguity by determining whether the appellant should be held liable for three or four occasions of infringement. The

compensatory damages award must therefore be set aside and the matter remitted to the trial judge for re-determination.

[22] Similarly, the punitive damages and costs awards must be set aside as they are intertwined with the compensatory award and are dependent on the number, severity and nature of the breaches that may be found to have been committed by the appellant.

[23] I agree with the appellant that the quantum of the punitive damages awarded by the trial judge in the present case is significant and outstrips awards in many previous cases, when the quantum of punitive damages is compared to the quantum of compensatory damages (see, for example *Singga* at paragraphs 161, 180; *Yang* at paragraphs 50-53, 61; *Chanel S. de R.L. and Chanel Inc. v. Jiang Chu*, 2011 FC 1303 (Order of the Court); *486353 B.C. Ltd.* at paragraphs 72, 82, 90-91; *Nintendo of America Inc. et al. v. COMPC Canada Trading Inc.*, (22 September 2009), Vancouver S082517 (B.C.S.C.) at paragraphs 30, 38). However, this would not necessarily render an award of this magnitude vulnerable to being set aside on appeal, depending on the findings made and reasons given to support the award. An award of this magnitude, one that outstrips awards made in some other cases, calls for an explanation founded upon the applicable legal tests and the specific facts of the case, an explanation more expansive than the trial judge gave.

[24] In *Whiten v. Pilot Insurance Co.*, 2002 SCC 18, [2002] 1 S.C.R. 595, the Supreme Court of Canada indicated that the scope of appellate review for punitive damages awards is broader than for other damages awards and that an appellate court is justified in intervening to set aside

or reduce an award of punitive damages if it finds that the award is higher than rationally required. Factors relevant to the rationality assessment include the degree to which the amount awarded is proportionate to the level of the defendant's blameworthiness, the extent of the plaintiff's vulnerability, the nature and extent of the harm suffered by the plaintiff and the need for general and specific deterrence. In addition, the quantum awarded should be considered in context, which includes the scope and magnitude of other remedies awarded or likely to be awarded against the defendant, so as to ensure that the amount awarded is no higher than necessary to achieve the court's objective in imposing punitive damages.

[25] Bearing these factors in mind, it is entirely possible that an award of punitive damages in the amount of \$250,000.00 might be a supportable remedy in a case like the present, even though the award is proportionally higher than the awards made in earlier cases. Violation of trade-mark rights through the repeated sale of counterfeit goods is serious misconduct worthy of sanction and justifies damages awards that are high enough so as to deter the defendant and others from engaging in such reprehensible conduct. As was noted in *Singga*, where the Federal Court cited with approval from *R. v. Chui Lau*, (16 November 2006), Richmond 48082-1-48984-2C (B.C.P.C.):

this kind of theft constitutes a very serious offence, more serious than a theft of some other material or property because it strikes at the heart of what differentiates a progressive, creative society [that protects intellectual property rights] from one that is [and does] not.

[26] The need for deterrence is therefore very real and may require a significant punitive damages award where compensatory damages can only be calculated on a nominal basis due to the nature of the defendant's infringing acts. Moreover, the repeated nature of the violations,

flouting of court orders and attempts of the appellant to obscure her involvement through the alleged sale of her business to the numbered company are all factors that could legitimately be relied upon to support a significant punitive damages award.

[27] But for the ambiguity in the trial judge's Reasons concerning the appellant's involvement in the June 2, 2013 infringement, there is no ground to set aside the trial judge's other findings concerning the appellant's involvement and responsibility in this matter. In this regard, the trial judge's findings are suffused by factual appreciation. To set them aside, the appellant must show palpable and overriding error on the part of the judge: *Housen v. Nikolaisen*, 2002 SCC 33, [2002] 2 SCR 235. None has been shown here.

[28] Thus, for the foregoing reasons, I would set aside the trial judge's decision and remit the summary trial motion to him for re-determination in accordance with these Reasons to, in particular, resolve the ambiguity and re-determine, with adequate reasons, the quantum of damages and costs. In light of the appellant's conduct, I do not believe it appropriate to award her the costs of this appeal and so would grant the appeal, without costs.

"Mary J.L. Gleason"

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J.A.

"I agree

David Stratas J.A."

"I agree

Wyman W. Webb J.A."

**FEDERAL COURT OF APPEAL**

**NAMES OF COUNSEL AND SOLICITORS OF RECORD**

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CHANEL S. DE R.L., CHANEL  
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**CONCURRED IN BY:** STRATAS J.A.  
WEBB J.A.

**DATED:** APRIL 11, 2016

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