

Federal Court
of Appeal



Cour d'appel
fédérale

Date: 20101005

Docket: A-50-10

Citation: 2010 FCA 255

**CORAM: NADON J.A.
SHARLOW J.A.
LAYDEN-STEVENSON J.A.**

BETWEEN:

PAUL CHEUNG AND LIONS COMMUNICATIONS INC.

Appellants

and

TARGET EVENT PRODUCTION LTD.

Respondent

Heard at Toronto, Ontario, on September 16, 2010.

Judgment delivered at Ottawa, Ontario, on October 5, 2010.

REASONS FOR JUDGMENT BY:

LAYDEN-STEVENSON J.A.

CONCURRED IN BY:

**NADON J.A.
SHARLOW J.A.**

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REASONS FOR JUDGMENT

LAYDEN-STEVENSON J.A.

[1] The trial in this matter concerned claims related to trade-mark and copyright in association with a night market. The appellants Paul Cheung and Lions Communications Inc. (Lions) appeal and the respondent Target Event Production Ltd. (Target) cross-appeals from the judgment of Simpson J. of the Federal Court (the trial judge). The trial judge's decision is reported at (2010), 360 F.T.R. 54, 80 C.P.R. (4th) 413. In my view, many of the allegations of error relate to the trial judge's factual conclusions and do not warrant the intervention of this Court. However, with respect

to the issues of injunctive relief and the award of solicitor-and-client costs, I am satisfied that the trial judge erred. Consequently, for the reasons that follow, I would allow the appeal in part.

Background

[2] The factual background is described in detail in the trial judge's reasons and is only briefly summarized here. Raymond Cheung is the President of Target. From 2000 until 2007, Target operated a summertime Chinese night market in Richmond, British Columbia.

[3] In 2002, Raymond Cheung created a logo for the night market. The logo (a bold blue circle) included the text "Richmond Night Market Summer Festival" in English and the name "Richmond Summer Night Market" in Chinese characters. Target promoted its market through various marketing and promotional activities described fully in the trial judge's reasons (para. 23).

[4] Raymond Cheung wrote (and revised) a number of documents relating to Target's market. Of primary importance were: two-sided vendor application forms (one for food vendors and another for merchandise vendors) which included a contract (on the front side) and rules and regulations (on the reverse side); and a plan for the market showing the location of food and merchandise booths, sponsors' booths, washrooms, the office and the stage (the Site Plan).

[5] Target's market became popular. In 2007, it featured approximately 300 food and merchandise vendors. From 2004 until 2007, it operated from a single leased location (the Vulcan property). In late 2007, when Target and its landlord were unable to agree on lease terms, Target

decided to relocate its market. However, it was not able to find a suitable location and did not operate a market in 2008 or 2009.

[6] Paul Cheung had some experience in the organization of public events in Vancouver, British Columbia, including a Chinese market not unlike Target's market in Richmond. In 2008, when Paul Cheung learned that Target had not renewed its lease, he pursued the idea of opening a night market on the then-vacant Vulcan property. He incorporated Lions to operate the market. Paul Cheung became Lions' majority shareholder and Director of Operations. Lions' market on the Vulcan property opened partially in May and opened entirely at the end of June, 2008.

[7] In May, 2008, Target commenced an action in the Federal Court against Paul Cheung and Lions. Target alleged that Paul Cheung and Lions had infringed its copyrights and were passing off its trade-marks in connection with their newly-opened market.

The Federal Court Decision

[8] The trial judge's reasons for judgment comprise some 241 paragraphs. With respect to the allegations of copyright infringement, the trial judge concluded:

- (1) Paul Cheung and Lions infringed Target's copyrights by using the Site Plan, or a substantial reproduction, in seeking a permit for its market, in renting booths to vendors and in constructing its market (paras. 45-49, 111-112);
- (2) Lions infringed Target's copyrights by using the rules in relation to its first 40 vendors; there was no material infringement in respect of any subsequent revisions to the rules (paras. 105-108);
- (3) Lions did not infringe Target's copyrights in the contracts since Lions' contracts were not substantial reproductions (para. 103).

[9] Regarding the allegations of passing off, the trial judge determined that Target's Names were trade-marks by January, 2007 (the Marks) because they enjoyed substantial goodwill and had acquired distinctiveness in association with Target, Target's night market on the Vulcan property and Target's president, Raymond Cheung (para. 159). However, when Target failed to open a market in 2009, these inherently weak Marks lost their distinctiveness and associated goodwill (para. 160). The trial judge also found:

- (1) Lions passed off on Target's Marks in connection with prospective market visitors in 2008. First, Lions chose names for its market, and made extensive use of those names, in ways that were likely to confuse visitors by leading them to believe that Lions' market was a continuation of Target's market (para. 227). Second, there was potential for damage to Target because, had it operated a market in 2008, Lions' conduct would have damaged its ability to attract visitors to its new location (para. 228);
- (2) Lions did not pass off on Target's Marks in connection with any market vendors since vendors would generally not have been confused by Lions' conduct and, in fact, none of Lions' vendors had ever been confused as to the identity of that market's organizer (paras. 191, 201);
- (3) Lions' use of the collateral documents did not constitute passing off since there was no confusion that it was Lions making use of those documents and, in certain cases, since Lions' documents were not substantial reproductions of the collateral documents (paras. 212-218);
- (4) Lions' references to articles about Target's market on its website did not constitute passing off since they would not give rise to confusion between the two markets (paras. 219-221);
- (5) Lions' correspondence with neighbouring businesses did not constitute passing off since it notified those businesses that Lions was the market's operator, rather than Target (paras. 222-226).

[10] Paul Cheung was held jointly and severally liable for damages for copyright infringement and passing off because the trial judge found that he implemented a strategy (developed before

Lions existed) to recreate Target's market using a substantial reproduction of the Site Plan (paras. 233, 234). However, since Paul Cheung's and Lions' actions did not harm Target in a monetary sense, damages of only \$15,000 plus interest were awarded.

[11] The trial judge declared that copyright subsists in the Site Plan and was infringed in 2008 by Lions' construction of its market on the Vulcan property. She enjoined Paul Cheung and Lions from further infringing the copyright by "operating a market which is a substantial reproduction" of the Site Plan. Target was awarded costs on a solicitor-and-client basis.

Overview of the Allegations of Error

[12] The parties allege innumerable reviewable errors. For example, Paul Cheung and Lions claim that the trial judge erred in relation to copyright by failing to adequately consider originality and the functional nature of the Site Plan and by not finding that they had a right to use the Site Plan. Regarding trade-mark, they contend that the trial judge erred by finding that Target's Marks acquired sufficient distinctiveness, by not finding that this distinctiveness was abandoned, by not concluding that the Marks were precluded from trade-mark protection, or that Lions' market names were sufficiently different from Target's Marks. Additionally, they argue the trial judge erred in: allowing Target to amend its pleading at trial; refusing or giving inappropriate weight to particular evidence; failing to consider any abuse of process or law; considering Target's claims in respect of immaterial dates; and in assessing the quantum of damages.

[13] By way of cross-appeal, Target argues that the trial judge erred in not finding infringement

of copyright in the appellants' use of the contracts, in not finding further infringement in respect of the rules, and in assessing the quantum of damages.

[14] These alleged errors basically constitute an attack on the trial judge's factual findings, her findings of mixed fact and law (from which there are no extricable legal questions) and the appropriate exercise of judicial discretion. I am not persuaded that the trial judge made any error in law, or any other error, that would allow this Court to intervene in respect of the preceding issues. However, certain other alleged errors warrant further comment.

[15] Specifically, Paul Cheung and Lions contend that the trial judge exceeded her jurisdiction in respect of the passing off claim and erred in finding damage for the purpose of that claim. Further, they say she erred in finding Paul Cheung jointly and severally liable, by enjoining Paul Cheung and Lions from operating their market and in awarding solicitor-and-client costs. Target asserts that the trial judge erred in finding that the Marks lost their distinctiveness by 2009 and in awarding inappropriate injunctive relief. Each of these issues will be addressed under the headings set out below.

Issues

- [16] (1) The Federal Court Jurisdiction under paragraph 7(b) of the *Trade-marks Act*, R.S.C. 1985, c. T-13
- (2) Loss of Distinctiveness
- (3) Damage Requirement for Passing Off
- (4) Personal Liability of Paul Cheung

- (5) The Injunctive Relief
- (6) Solicitor-and-Client Costs

The Standards of Review

[17] Before turning to the issues, it is useful to review the standards of review applicable to the trial judge's determinations. Questions of law are reviewable on a standard of correctness and questions of fact and mixed fact and law are reviewable only for palpable and overriding error, unless a question of mixed fact and law contains an extricable question of law in which case it may be reviewed on a standard of correctness. The role of an appellate court is not to write a better judgment than the trial judge, but to review the judge's reasons in light of the arguments of the parties and the relevant evidence: *Housen v. Nikolaisen*, [2002] 2 S.C.R. 235.

[18] The question of costs is a discretionary matter. An appellate court will disturb a discretionary decision only if it was based on an error of law, or if the trial judge wrongfully exercised discretion by giving insufficient weight to relevant considerations, by failing to consider relevant factors, or by considering irrelevant factors: *Elders Grain Co. v. M/V Ralph Misener (The)*, [2005] 3 F.C.R. 367 (C.A.).

The Federal Court Jurisdiction under paragraph 7(b) of the *Trade-marks Act*

[19] At trial, Target sought relief for purported violations of paragraph 7(b) of the *Trade-marks Act*. That provision reads:

7. No person shall

[...]

(b) direct public attention to his wares, services or business in such a way as to cause or be likely to cause confusion in Canada, at the time he commenced so to direct attention to them, between his wares, services or business and the wares, services or business of another;

7. Nul ne peut

[...]

b) appeler l'attention du public sur ses marchandises, ses services ou son entreprise de manière à causer ou à vraisemblablement causer de la confusion au Canada, lorsqu'il a commencé à y appeler ainsi l'attention, entre ses marchandises, ses services ou son entreprise et ceux d'un autre;

[20] Paragraph 7(b) is a statutory expression of the common law tort of passing off, with one exception. To resort to this paragraph, a plaintiff must prove possession of a valid and enforceable trade-mark: *BMW Canada Inc. v. Nissan Canada Inc.*, 2007 FCA 255, 60 C.P.R. (4th) 181 at para. 14 (*BMW*). Absent such a trade-mark, the Federal Court, and by extension this Court, lacks jurisdiction to entertain a claim for statutory passing off.

[21] The trial judge's extensive reasons demonstrate that she found Target's Marks to be valid trade-marks only after a careful review and consideration of the evidence. Her conclusion as to the existence of those trade-marks does not disclose any palpable and overriding error. The trial judge then analyzed whether Target had established the requisite elements of its paragraph 7(b) claim. In so doing, she considered the relevant factual context (including the appellants' conduct in relation to market vendors and visitors), Target's collateral documents, the appellants' website, and the appellants' communications with neighbouring businesses. In spite of the trial judge's passing references to copyright concepts or other activities irrelevant to a trade-mark analysis, when read in

totality, the judge's reasons reveal an analysis that was properly focussed on Target's valid and enforceable Marks. I am not persuaded that her decision discloses any error warranting this Court's intervention.

Loss of Distinctiveness

[22] Target maintains that because the trial judge found "enormous goodwill" associated with its Marks, it was unreasonable for her to later conclude that the Marks lost their distinctiveness once Target failed to open a night market in 2009 (para. 227). Notably, the trial judge also found Target's Marks were "inherently weak" and their "acquired distinctiveness was not...durable" (para. 160).

[23] Determining whether a trade-mark has lost its distinctiveness is a finding of fact: *Auld Phillips Ltd. v. Suzanne's Inc.*, 2005 FCA 429, 46 C.P.R. (4th) 81 at para. 5. Moreover, it has long been understood that a trade-mark may lose distinctiveness from disuse or abandonment: *General Motors Corp. v. Bellows*, [1949] S.C.R. 678, 10 C.P.R. 101 at para. 25. I am not persuaded that the trial judge committed any palpable and overriding error in finding that the Marks had lost their distinctiveness by 2009.

Damage Requirement for Passing Off

[24] In addition to establishing possession of a valid and enforceable trade-mark, the tripartite test for passing off requires evidence of: (1) the existence of goodwill; (2) the deception of the public due to a misrepresentation; and (3) actual or potential damage to the plaintiff: *Remo Imports Ltd. v. Jaguar Cars Ltd.*, [2008] 2 F.C.R. 132 at para. 89; *Kirkbi AG v. Ritvik Holdings Inc.*, [2005]

3 S.C.R. 302 at paras. 66-69. The appellants correctly state that it is necessary to prove the damage component of the tripartite test and that damage cannot be presumed: *BMW* at para. 35;

PharmaCommunications Holdings Inc. v. Avencia International Inc., 2009 FCA 144, 79 C.P.R. (4th) 460 at paras. 6-12.

[25] According to the appellants, Target failed to demonstrate the damage component of the test and the trial judge thus erred in finding that passing off had been established. At paragraphs 227 and 228 of her reasons, the trial judge stated:

In my view, the Plaintiff has established passing off in connection with prospective visitors. There is no doubt that Target had enormous goodwill associated with the Target Names and that Lions chose names for its event that were likely to cause confusion in both English and Chinese. It then used them extensively in ways which were calculated to confuse prospective visitors. They were led to believe that the market in 2008 was a continuation of Target's successful event.

I am also satisfied that there was potential for damage to Target. Had it operated a market in 2008, Lions' conduct would have damaged Target's ability to attract visitors to its new location.

[26] In sum, the appellants maintain that the trial judge's findings do not satisfy the damage component of the test because there was no actual damage in 2008 and the trial judge's inference about potential damage was an improper application of the legal test. I do not find it necessary to address the question of potential damage to dispose of this issue because I am satisfied that Target suffered actual damage in this case. I refer specifically to the principle summarized by Belobaba J. in *2 for 1 Subs Ltd. v. Ventresca* (2006), 48 C.P.R. (4th) 311, 17 B.L.R. (4th) 179 at para. 55 (Ont. Sup. Ct. J.):

The third requirement, actual or potential damage, is also established. In a case where the defendant is in direct competition with the plaintiff, damage can be established by showing a probability of loss of sales and business to a competitor. But where, as here, the parties are not in direct competition because the defendant has taken over the plaintiff's premises and there are no other 2 for 1 Subs franchises in the area, the damage to the plaintiff is the loss of control over the impact of its trade name in the defendant's market and the creation of a potential impediment to its using its trade mark when re-entering the defendant's market (citation omitted).

[27] In this regard, see also: *Orkin Exterminating Co. v. Pestco Co. of Canada* (1985), 50 O.R. (2d) 726 at paras. 48, 49, 75 (C.A.); *Walt Disney Productions v. Triple Five Corp.* (1994), 17 Alta. L.R. (3d) 225 at paras. 87-94 (C.A.); *Enterprise Rent-A-Car Co. v. Singer*, [1996] 2 F.C. 694 at paras. 80-81 (T.D.), aff'd 146 F.T.R. 158, 79 C.P.R. (3d) 45 (F.C.A.).

[28] The noted authorities teach that use of an owner's trade-mark may cause the owner to suffer an actual loss of control over its mark, despite the owner's absence from the relevant market. Such loss is sufficient to ground the third component of the tripartite test. The trial judge's reasons, read in totality, demonstrate that such damage was established at trial. There is no palpable and overriding error in the trial judge's conclusion that Target suffered damage sufficient to satisfy the relevant legal test.

Personal Liability of Paul Cheung

[29] As noted earlier, the trial judge found Paul Cheung and Lions jointly and severally liable. They maintain that the trial judge erred in so holding because most of the infringing acts and passing off occurred after the date of incorporation. They argue that the mere fact that Paul Cheung

had to engage himself in much of the corporate activity should not disentitle him from the normal shield against personal liability.

[30] In addition to the testimony of the witnesses, the trial judge had before her the admissions in the statement of defence that Paul Cheung personally undertook the promotion and organization of the 2008 summer market in Richmond, personally filed the permit application and personally directed, controlled and managed all activities of Lions.

[31] At paragraphs 229 through 233 of her reasons, the trial judge delineated the factors she considered in concluding that Paul Cheung should be “jointly and severally liable for any monetary award.” She referred to and relied upon the reasoning of this Court in *Mentmore Manufacturing Co. v. National Merchandise Manufacturing Co.* (1978), 89 D.L.R. (3d) 195, 40 C.P.R. (2d) 164 (F.C.A.) where the Court held that personal liability could follow in circumstances where the individual’s purpose is not the direction of the activity of the company but the deliberate, wilful and knowing pursuit of a course of conduct that was likely to constitute infringement or reflected an indifference to the risk of it. Room must be left for a “broad appreciation of the circumstances of each case”.

[32] On the basis of the factors cited by her and considering that the trial judge had the benefit of seeing and hearing the witnesses, I cannot say that her determination on the personal liability of Paul Cheung was palpably wrong. Consequently, there is no basis upon which this Court may

intervene, even if it would have decided the issue differently. Absent palpable and overriding error, it is not open to this Court to substitute its view for that of the trial judge.

Injunctive Relief

[33] The appellants submit that the trial judge erred by enjoining them from “operating” a market which is a substantial reproduction of the Site Plan because the only remedies available for copyright infringement are those provided for under the *Copyright Act*, R.S.C. 1985, c. C-42. The statute does not contemplate prohibitions against “use” or “operation”. Target agrees on this point, as do I. Target’s suggestion that the injunction be amended to correspond to and reflect the relevant statutory provisions is sound. It was open to the trial judge to enjoin the appellants from further infringing activity and she did. Target should not be prejudiced because the scope of the injunction, as drafted, is too broad. The appropriate statement of injunctive relief is: Paul Cheung and Lions Communications Inc. are enjoined from further infringing the copyright of Target Event Production Ltd. in the Market Site Plan by reproducing it, or any substantial part thereof, in any material form whatever.

Solicitor-and-Client Costs

[34] The fundamental principle is that an award of costs represents a compromise between compensating a successful party and not unduly burdening an unsuccessful party: *Apotex Inc. v. Wellcome Foundation Ltd.* (1998), 159 F.T.R. 233, 84 C.P.R. (3d) 303 at para. 7 (T.D.), aff’d (2001), 199 F.T.R. 320, 270 N.R. 304 (C.A.). The general rule is that costs follow the event and absent exceptional circumstances should be awarded to the successful litigant on a party-and-party

basis. However, it remains the case that costs are within the discretion of the Court: *Federal Courts Rules*, S.O.R./98-106, r. 400(1). The non-exhaustive factors that may be considered in awarding costs are delineated in rule 400(3), including “any other matter that [the Court] considers relevant”: r. 400(3)(o).

[35] An award of solicitor-and-client costs is exceptional. The Supreme Court of Canada has repeatedly stated that solicitor-and-client costs should generally be awarded only when a party has displayed reprehensible, scandalous or outrageous conduct: *Young v. Young*, [1993] 4 S.C.R. 3 at para. 66; *Baker v. Canada (Minister of Citizenship and Immigration)*, [1999] 2 S.C.R. 817 at para. 77; *Hamilton v. Open Window Bakery Ltd.*, [2004] 1 S.C.R. 303 at para. 26.

[36] Because of the exceptional nature of solicitor-and-client costs, a trial judge should generally provide some explanation as to why such an award is made. Otherwise, an appellate court is left to speculate as to the basis upon which the trial judge exercised his or her discretion. Cases where the record, without more, will justify such an award will be exceedingly rare.

[37] In this case, the trial judge did not provide any explanation for awarding solicitor-and-client costs. Nor do the reasons for judgment assist in this respect. Although certain conduct on the part of Lions was described as “sleazy”, the same conduct was not found to be unlawful. There is no reference in the trial judge’s reasons to any reprehensible, scandalous or outrageous conduct. Further, the record does not disclose any conduct that appears to reach that threshold.

[38] Target's argument that solicitor-and-client costs may have been awarded to save harmless an innocent litigant from the otherwise unnecessary expense of litigation is not persuasive. A number of Target's allegations were not made out at trial. Moreover, the trial judge concluded that Target's president was not credible in a number of respects (paras. 66-71). These observations and the lack of any specific findings on the issue of costs render the characterization of Target as an innocent party, for the purpose of awarding costs, wholly inappropriate.

[39] There being nothing in the reasons or the record to justify an award of solicitor-and-client costs, I would allow the appeal in this respect.

Conclusion

[40] I would allow the appeal in part and dismiss the cross-appeal. I would set aside the trial judge's judgment with respect to the injunctive relief and the costs award. Rendering the judgment that ought to have been made, I would substitute the following:

(1) Paul Cheung and Lions Communications Inc. are enjoined from further infringing the copyright of Target Event Production Ltd. in the Market Site Plan by reproducing it, or any substantial part thereof, in any material form whatever;

(2) Target is entitled to its costs in the Federal Court on a party-and-party basis. Requests for directions to the assessment officer, if any, can be made to the trial judge pursuant to rule 403.

[41] Since success has been divided, I would not award any costs on the appeal.

"Carolyn Layden-Stevenson"

J.A.

"I agree

M. Nadon J.A."

"I agree

K. Sharlow J.A."

FEDERAL COURT OF APPEAL

NAMES OF COUNSEL AND SOLICITORS OF RECORD

DOCKET: A-50-10

APPEAL FROM A JUDGMENT OF THE FEDERAL COURT DATED January 11, 2010; DOCKET NO. T-702-08

STYLE OF CAUSE: PAUL CHEUNG et al v. TARGET EVENT PRODUCTION LTD.

PLACE OF HEARING: Toronto, Ontario

DATE OF HEARING: September 16, 2010

REASONS FOR JUDGMENT BY: LAYDEN-STEVENSON J.A.

CONCURRED IN BY: NADON J.A.
SHARLOW J.A.

DATED: October 5, 2010

APPEARANCES:

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FOR THE RESPONDENT