

Federal Court of Appeal Takes a Firm Stance against Counterfeiters

A recent decision of the Federal Court of Appeal sends a clear message to those who engage in the sale of counterfeit goods.

The Facts

The appellant in this case was involved in the sale of counterfeit **Chanel** merchandise. In 2006 two previous actions were commenced against the appellant and a corporate co-defendant relating to such activities. The actions were settled and the appellant and her co-defendant were enjoined from continuing to sell the counterfeit merchandise.

Despite these orders, it was alleged that the appellant continued to sell counterfeit Chanel merchandise through a new business. As a result, Chanel and its Canadian licensee instituted an additional action in the Federal Court. The appellant claimed she had ceased her involvement in the new business before the infringement took place and that the business had been transferred to a numbered company operated by her children.

The Trial

In order to expedite the resolution of the claim, Chanel brought a motion for summary trial and filed a number of affidavits relating to their case. The defendants submitted affidavits as well and argued that the case was not suitable for summary trial because there were credibility issues relating to the transfer of assets to the numbered company which should only be decided at a conventional trial where the witnesses testify and are cross-examined in court.

The trial judge did not agree and said the question as to whether there was an effective transfer of assets could be resolved without a full trial. After considering the evidence

and the representations of the parties, the judge was not satisfied that there was a legitimate transfer of the assets and found that the appellant and various corporate defendants continued to engage in ongoing infringing activity by selling counterfeit goods.

The trial judge concluded that the rights of Chanel and its Canadian licensee were violated and calculated nominal damages at \$64,000 in favour of each of them. The judge also found that the appellant and the corporate defendants were jointly and severally liable for payment of the damages.

The judge also made an order for punitive damages on the basis that the appellant and corporate defendants were all involved in continuing acts of infringement and found that they were jointly and severally liable for \$250,000 under this head of damage.

The Appeal

The appellant appealed to the Federal Court of Appeal and argued that the judge had erred in deciding the action by way of summary trial and that nominal damages and punitive damages should not have been awarded against her.

The appeal court refused to find that the judge had erred in proceeding by way of summary trial. A decision to do so is discretionary and entitled to deference on appeal. The court said cases like the present one involving ongoing sales of counterfeit goods by a defendant who seeks to put forward an specious defence, were particularly well suited to being decided by way of summary trial.

With respect to the attack on the award of nominal damages, the court said that where defendants are uncooperative, proof of actual damages is difficult and it is hard to estimate the harm done to the trademark owner's goodwill through the sale of inferior quality goods. As a result, the award of nominal damages was appropriate.

A number of judges at the trial level of the Federal Court have granted conventional sums of nominal damages for each act of infringement and the court agreed that such a practice was appropriate.

With respect to punitive damages, the court observed that it was entirely possible that an award of punitive damages in the amount of \$250,000 could be appropriate even though it was higher than awards made in previous cases. The violation of trademark rights through the repeated sale of counterfeit goods is serious misconduct worthy of sanction and justifies damage awards that are high enough so as to deter the defendants and others from engaging in such reprehensible conduct. The need for deterrence is very real and may require a significant punitive damage award where compensatory damages can only be calculated on a nominal basis due to the nature of the defendant's activities.

Unfortunately for the respondent, the trial judge's findings regarding the extent of the appellant's involvement in the acts of infringement were said to be ambiguous and the reasons were not sufficiently clear. As a result, the appeal was allowed and the action remitted to the trial judge for a redetermination in accordance with the Court of Appeal's reasons.

Comment

This decision will be welcomed by brand owners who are the victims of counterfeiting activities. The decision supports the availability of motions for summary trial, which can expedite the proceedings, the award of nominal damages in fixed amounts and the possibility of significant awards for punitive damages.

John McKeown

Goldman Sloan Nash & Haber LLP

480 University Avenue, Suite 1600

Toronto, Ontario M5G 1V2

Direct Line: (416) 597-3371

Fax: (416) 597-3370

Email: mckeown@gsnh.com

These comments are of a general nature and not intended to provide legal advice as individual situations will differ and should be discussed with a lawyer.