

MONETARY RELIEF - DAMAGES

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1. INTRODUCTION

Any intellectual property right, duly recognized (by registration or otherwise), will confer upon its owner a lawful monopoly for a predetermined period of time (patents, twenty (20) years from the filing date of the application¹, copyright, generally fifty (50) years after the death of the author², industrial design, ten (10) years beginning on the date of registration of the design³) or undetermined (a trade-mark will confer exclusive rights for as long as it is distinctive of its owner's wares or services).

When intellectual property rights are infringed, their owner may initiate proceedings to have such monopoly recognized and enforced in the future (by way of an injunction order issued by the Court to prevent further infringement) and obtain monetary compensation for past infringement.

2. DAMAGES

2.1 General

a. general principles

Damages are compensatory in nature. Damages are awarded to a Plaintiff as compensation for the actual loss sustained by it as a result of infringing

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¹ *Patent Act*, (1985) R.S.C. c. P-4, s. 44

² *Copyright Act*, (1985) R.S.C. c. C-30, s. 6

³ *Industrial Design Act*, (1985) R.S.C. c. I-8, s. 10

activities by the Defendant. Issues of fact relating to causality and remoteness may properly be explored when damages are being assessed⁴. If possible, the Court must try to put the Plaintiff back in the position it would have been if it had not sustained the wrong⁵. Infringement is a continuing wrong, until enjoined by the Court. Damages will be awarded only during the period subject to no limitation by statutes⁶.

It may be difficult, if not impossible, to arrive at an amount with any kind of mathematical accuracy when assessing damages and, when impossible to determine with precision, the determination of damages must, to a large extent, be a rough and ready one. Assessment must be accomplished by the exercise of a sound imagination and the practice of the broad axe. Damages are awarded by way of compensation and not as a penalty or punishment of the Defendant⁷. A Trial Judge may order the payment of damages considered fair in all the circumstances of the case. No measure of damages is applicable to all cases⁸.

b. statutory provisions

This section deals with damages available under statutory provisions found in the *Patent Act* (S. 55), the *Trade-Mark Act* (S. 53.2), the *Copyright Act* (Ss. 34, 35, 38, 38.(1)) and the *Industrial Design Act* (S. 15.1). In passing-off and unfair competition cases, the measure of damages granted is largely inspired from the case law dealing with trade-mark infringement.

c. procedure

Whether damages will be awarded in any given circumstances is a question of substance, not a question of procedure. Damages must be alleged in the written pleadings and proven at trial. In certain jurisdiction, the Plaintiff might have to opt between the remedy of damages or an account, before the

⁴ *Prism Hospital Software Inc. et al. v. Hospital Medical Records Institute et al.* op. cit., at 287; *Lubrizol Corp. et al. v. Imperial Oil et al.* (1996) 71 C.P.R. (3d) 26, at 30 (F.C.A.) Hugessen, J.

⁵ *Allied Signal Inc. v. Du Pont Canada Inc.*, op. cit. at 139

⁶ *Consolboard Inc. v. MacMillan Bloedel (Saskatchewan) Ltd.* (1982) 63 C.P.R. (2nd) 1 at 28 (F.C.T.D.), Cattanach, J.

⁷ *J.R. Short Milling Co. (Canada) v. Continental Soya Co. and George Weston Bread and Cakes, Ltd.* (1943-44) 3 Fox's Patent Cases, 18 at 29 (Ex. Ct.), Duclos; *Slumber Magic Adjustable Bed Co. Ltd. v. Sleep-King Adjustable Bed Co. Ltd.* (1984) 3 C.P.R. (3d) 81, at 89; *Allied Signal Inc.*, op. cit. at 139;

⁸ *Canwest Telephone Co. Inc. et al. v. Canwest Commercial Phone Centre Ltd. et al.* (1985) 8 C.P.R. (3d) 360 at 365 (B.C.S.C.) MacKinnon, J.; *Unilever PLC et al. v. Proctor & Gamble Inc. et al.*, op. cit. 499 at 524;

Defendant is required to file its defence⁹. Before the Federal Court of Canada, the assessment of profits or damages is generally referred after the trial¹⁰ and damages need not be specifically pleaded; particulars on pleadings will not be ordered¹¹.

A reference is obtained by motion filed at any time before trial, but preferably before Affidavits of documents are exchanged and the parties proceed to discoveries, in order to avoid having to deal with documentary and oral evidence concerning damages or profits, prior to the establishment of liability. The referee is generally a Prothonotary or a Judge of the Court appointed by the Associate Chief Justice. A reference is in reality a trial after the trial and follows the same rules of procedure and proof. Discoveries on the issues are held, expert reports are exchanged and a hearing takes place before the referee. Once the referee issues his decision, it may be appealed, as any other decision.

Even if a reference has not been ordered, the Trial Judge may order one at the end of the trial if he is unsatisfied with the evidence brought at trial¹². However, a reference ordered by the Court does not deprive the Trial Judge from determining the issues of law. A Trial Judge may lay down principles concerning the measure of damages to guide the referee in computing the quantum of the damage award¹³. Also, even if a reference has been ordered and the Judge, at trial, finds that no damages were suffered by the Plaintiff, he may decline to order that the reference takes place. When an issue of fact has been made subject of a reference, pursuant to the Rules of the Federal Court of Canada, the Trial Judge must be satisfied, at the conclusion of the trial, that it is an issue which remains to be decided on the reference¹⁴.

Once the infringement of an intellectual property right has been successfully demonstrated, the injured party will be entitled to compensation and the

⁹ *Dableh v. Hydro-Québec* (1992) 41 C.P.R. (3d) 256

¹⁰ *Dableh v. Ontario Hydro* (1993) 50 C.P.R. (3d) 291 at 361 (F.C.T.D.), Muldoon J.; *Rules of the Federal Court, 1998*, Rules 107 and 153

¹¹ *Teknion Furniture Systems et al. v. Artopex Inc.* (1992) 44 C.P.R. (3d) 504 at 506 (F.C.T.D.), Jerome, J.

¹² *Dableh v. Ontario Hydro*, op. cit. at 366

¹³ *Unilever PLC et al. v. Procter & Gamble Inc. et al.* (1995) 61 C.P.R. (3d) 499 at 523 (F.C.A.), Isaac, J.

¹⁴ *Anheuser-Busch Inc. v. Carling-O'Keefe Breweries of Canada Ltd.* (1986) 10 C.P.R. 93d) 433 at 437-439 (F.C.A.), Heald, J.

Court has the discretion to grant the Plaintiff's choice of remedies. If an account of profits is refused, damages, even if nominal should be awarded¹⁵.

d. judicial history and trends

Principles relating to the award of damages and the establishment of quantum have been set a long time ago and uniformly applied by Canadian courts. Evidently, each case will be decided on its own facts. Experience has shown, and the case law reflects, that the determination of damages in intellectual property cases is a "rough and ready-one". From the late 1970's up until recently, when the option was available, Plaintiffs have opted to be compensated by taking an account of profits made by the Defendants, mainly for two (2) closely related reasons: where the burden of proof lies and the belief that the award granted would be larger.

When relief is given by way of an account of the Defendant's profits, the Plaintiff only need to prove the revenues derived from the infringement. The Defendant is then required to prove every element of costs that he claims. If the Court is not satisfied that the claimed costs is directly related to the Defendant's infringing activities, the deduction will be refused, which will result in an increase of the award for the Plaintiff. As explained below, if relief is given by way of damages and the Plaintiff wishes to receive his lost profits, he must show that he would have made the sale and what its loss profits are (revenues the Plaintiff would have made less the costs or additional costs he would have incurred). If the evidence is unsatisfactory as to whether the Plaintiff would have made the sale, he will be entitled to a reasonable royalty. Again, the Plaintiff will have to show by conclusive evidence what the royalty rate should be. If the Court is unsatisfied with the Plaintiff's evidence, the Court might award nominal damages only. This is the main difference between an award of damages and profits¹⁶.

In the past, there had been abuse in the conduct of account of profits and as a result, their resources of litigant and the Court have been overburden. The Federal Court recently expressed reservation as to the availability, in all cases, of the account of profits as a relief in industrial property cases¹⁷.

¹⁵ *Dableh v. Ontario Hydro*, op. cit. at 366; *Unilever PLC et al. v. Procter & Gamble*, op. cit. at 571; *Prism Hospital Software Inc. et al. v. Hospital Medical Records Institute et al.* (1994) 57 C.P.R. (3d) 129 at 285; *Beloit Canada Ltd. et al. v. Valmet-Dominion Inc.*, op. cit. at 362;

¹⁶ *Teledyne Industries Inc. et al. v. Lido Industrial Products Ltd.* (1982) 68 C.P.R. (2d) 205, at 208-209; *Reading & Bates Construction Co. v. Baker Energy Resources Co.* (1995) 1 C.F. 494

¹⁷ *Allied Signal Inc. v. Du Pont Canada Inc.* (1995) 61 C.P.R. (3d) 417, at 444-445

In a case where a product has no substitute on the market and the Plaintiff is a “one product company” and derives all of its presumably substantial profits from said product, it would make sense for that Plaintiff to opt to be compensated by way of damages. In such circumstances, it should be easy for the Plaintiff to show that all the sales of the Defendant would have been made by the Plaintiff and the amount of profits the Plaintiff would have derived from such sales.

e. burden of proof

The onus to prove damages rest entirely with the Plaintiff. The scope of damages to which a Plaintiff is entitled is not based upon an assumption, but rather on a finding of facts supported by the evidence¹⁸. However, damages should be liberally assessed¹⁹. The Defendants are entitled to be shielded from mere speculations, but cannot be allowed to hide behind difficulties of proof arising from their own wrongful acts²⁰

A damage award under Sub-section 55(1) of the *Patent Act* is limited only by what the patentee may lawfully prove²¹.

In preparation for trial (or the reference to assess the damages if one has been ordered) the following information, by way of example, should be obtained when discovering the Defendant:

- the revenues he derived from the infringement;
- the identity of his customers;
- the market size;
- the market position of the Defendant;
- the period of infringement;
- the competition and competitive products;
- the main costs associated with the manufacture and sale of the infringing products (for purposes of comparison and to establish “industry standards”);
- royalty rate paid on license agreement to which the Defendant is a party, if any (to establish the going rate of the industry);

2.2 Patents

¹⁸ *Beloit Canada Ltd. et al. v. Valmet-Dominion Inc.*, op.cit. at 366

¹⁹ *Allied Signal Inc. v. Du Pont Canada Inc.*, op. cit. at 129

²⁰ *Prism Hospital Software Inc. et al. v. Hospital Medical Records Institute et al.* op. cit., at 284

²¹ *Unilever PLC et al. v. Procter & Gamble Inc. et al.*, op. cit. at 524

a. before the issuance of the patent

Under the *Patent Act*, patent applications filed in Canada must be published and opened for inspection by the public, no later than eighteen (18) months after having been filed²². For any act that would have been an infringement (had the patent been issued) in the period between the publication and the grant of the patent, the patentee is entitled to a reasonable compensation for any damages sustained by reason of such “infringement”, pursuant to Section 55.(2) of the Act. To date, only one case dealt with this specific section²³. This Section refers to “... reasonable compensation... for any damage sustained...”. Damages and quantum of damages must be proven. In the absence of such proof, nominal compensation will be awarded before the issuance of the patent.

If damages are proven, the reasonable compensation awarded under Section 55.(2) of the Act should normally be less than the actual damages sustained by the patentee. Section 55.(2) does not call for an award of damages, but rather for a reasonable compensation. Had Parliament wish to fully compensate the patentee for the damages sustained before the issuance of the patent, the Section could have been worded accordingly. Also, during that period, a lawful monopoly has not yet been granted to the patentee.

b. after the issuance of the patent

i) sales to be considered

The issue is whether damages should be awarded considering the sale by the infringer of the patented article only. Often, the patented article is merely a component of a more complex article, or a complete article in itself but sold necessarily in association with other non-infringing articles. A patentee may be entitled to damages assessed upon the sale of non-infringing components when there is a finding of fact that such sales arose from infringing the patented components²⁴.

ii) sales a patentee would have made - lost profits - profits to be considered

²² *Patent Act*, *op. cit.*, s. 10

²³ *Baker Petrolite Corp. v. Canwell Enviro-Industries Ltd.* (2001) 13 C.P.R. (4th) 193, at 253

²⁴ *Beloit Canada Ltd. et al. v. Valmet-Dominion Inc.*, *op. cit.* at 366

When infringement is found, the patentee will be entitled to damages, either equal to profits lost on sales the patentee would have made or equal to a royalty for the use of the infringed patent²⁵.

The Court must assess what would have been the patentee's position if the infringer have acted properly. The patentee must be compensated for the loss sustained by it as a result of the infringing sale of a patented product which, but for the infringement, the patentee would have made, thereby realizing a profit which was ultimately lost. The measure of damages is the profit the Plaintiff would have made on the sale of each infringing items sold by the infringer²⁶. Profit is basically the income from a trade represented by the receipts less the expenditures and is to be determined upon principles of business and accountancy²⁷. The net profits as opposed to the manufacturing profits must be taken into consideration. The Defendant should not be condemned to pay more than the loss of the real profit, not based on debiting part only of the expenses but all the expenses, both direct and indirect²⁸ that the patentee would have incurred to make the sale.

The right to claim loss profits on sales is not limited to sales within Canada. The patentee must be compensated for all damages flowing from the infringement of the patent within Canada, which may include profits lost on sales made outside Canada²⁹.

When trying to determine what portion of the Defendant's sales the patentee would have made, the Court must examine the hypothetical situation where it is assumed that the infringing products never entered the market. The following factors may be considered:

- a. presence of competing products in the market
- b. advantages of the patented product over the competing products
- c. advantages of the infringing products over the patented products
- d. market position of the patentee
- e. market position of the infringer

²⁵ *Allied Signal Inc. v. Du Pont Canada Inc.*, op. cit. at 139

²⁶ *J.R. Short Milling Co. (Canada) v. Continental Soya Co. and George Weston Bread and Cakes Ltd.*, op. cit. 25; *J.M. Voith GmbH et al. v. Beloit Corp. et al.* (1993) 47 C.P.R. (3d) 448 at 473 (F.C.T.D.) Rouleau J.

²⁷ *Consolboard Inc. v. MacMillan Bloedel (Saskatchewan) Ltd.*, op. cit. at 21

²⁸ *J.R. Short Milling Co. (Canada) v. Continental Soya Co. and George Weston Bread and Cakes Ltd.*, op. cit. at p. 25; *Allied Signal Inc. v. Du Pont Canada Inc.*, op. cit. at 156

²⁹ *Allied Signal Inc. v. Du Pont Canada Inc.*, op. cit. at 140

- f. market share of the patentee before and after the infringing product entered the market
- g. size of the market before and after the infringing product entered the market
- h. capacity of the patentee to produce additional products³⁰.

It will generally not be required from the patentee that he establishes with precision the definite number of sales he would have made, but for the infringement³¹.

iii. sales a patentee would not have made - reasonable royalty

When a patentee itself manufactures the invention for profits, damages are assessed on the basis of loss of manufacturing profits. When the patentee merely allow others to use the invention and return for royalties, the damages are assessed on the basis of loss of royalties. These two (2) measures of damages are mutually exclusive³². In case of doubt as to whether the patentee would have made the sale, the award of a reasonable royalty is sometimes the safest and best way to arrive at a sound conclusion as to the proper evaluation of the damages³³. Where the patentee has licensed its invention in the past, the measure of damages is equal to the royalty the infringer would have had to pay if it had entered into a legitimate licensing agreement with the patentee. The rate of royalty in such a case is a matter of evidence. The question is what a willing licensee would pay to a willing licensor for the use of the patent³⁴.

When there is no direct evidence as to the amount the patentee would have considered to be a reasonable royalty, it is necessary for the Court to consider royalty negotiated in other trade, expert opinion expressed in publications or in the witness box, the profitability of the invention and any other factors on which the Judge can decide the measure of loss³⁵.

However, when considering evidence of other licenses at a certain royalty rate in the same or in other trades, it must also be shown to the Court that the circumstances under which such other licenses were given are the same or

³⁰ *Allied Signal Inc. v. Du Pont Canada Inc.*, op. cit. at 141

³¹ *Allied Signal Inc. v. Du Pont Canada Inc.*, op. cit. at 142

³² *Consolboard Inc. v. MacMillan Bloedel (Saskatchewan) Ltd.*, op. cit., at 7

³³ *Allied Signal Inc. v. Du Pont Canada Inc.*, op. cit. at 153

³⁴ *Consolboard Inc. v. MacMillan Bloedel (Saskatchewan) Ltd.*, op. cit. at 8

³⁵ *Allied Signal v. Du Pont Canada Inc.*, op. cit. at 177

comparable to the circumstances under which the Court must fix the royalty rate the Defendant will have to pay³⁶.

The onus of producing reliable evidence to allow the Court to fix a rate of royalty is on the patentee³⁷. The Court is entitled to rely on expert evidence and the following factors may be considered: the need to transfer technology, the differences in the practice of the invention, the fact that the licence is non exclusive, territorial limitations, the term of the license, the competitive technology, the competition between the licensor and the licensee, the demand for the product, the risk, the novelty of the invention, the compensation for research and development costs, the displacement of business and the capacity to meet market demand³⁸.

The Trial Judge assessing the damages is accorded a large measure of freedom in dealing with the evidence presented to the Court. If the evaluation presented is unusually high or low, the Trial Judge may adjust it downward or upward³⁹.

iv. price erosion

Where competition by the infringer forces the patentee to reduce the selling price of its patented product, in principle the patentee may be entitled to the profit it lost, both on the sales it actually made and the sales that it would have made, at the selling price it would have maintained, but for the presence of the infringing product. The patentee must prove that it was the competition by the infringer and no other factors that prevented it from raising its prices. It will suffice if the patentee can show that its prices were affected by the infringer's market presence through marketing scheme or other means⁴⁰.

v. entitlement - patentee - person claiming under the patentee

The infringer is liable to the patentee and all persons claiming under the patentee for all damages sustained by the patentee and such persons⁴¹. A licensee (exclusive⁴² or non-exclusive⁴³) and even the purchaser of the

³⁶ *Consolboard Inc. v. MacMillan Bloedel (Saskatchewan) Ltd.*, op. cit. at 8

³⁷ *Consolboard Inc. v. MacMillan Bloedel (Saskatchewan) Ltd.*, op. cit. at 8

³⁸ *Allied Signal Inc. v. Du Pont Canada Inc.*, op. cit. at 178-179

³⁹ *Allied Signal Inc. v. Du Pont Canada Inc.*, op. cit. at 162

⁴⁰ *Allied Signal Inc. v. Du Pont Canada Inc.*, op. cit. at 181

⁴¹ *Patent Act*, op. cit., s. 55.(1)

⁴² *Fiberglas Canada Ltd. et al. v. Spun Rock Wools Ltd. et al.* (1947) 6 C.P.R. 57

patented article⁴⁴ or found to be persons claiming under the patentee. In any proceedings where damages are claimed, the patentee must be a party⁴⁵.

2.3 Trade-marks

i) measure of damages

In trade-mark/trade name cases, it is often difficult for the Plaintiff to prove that specific damages were sustained by reasons of the infringement by the Defendant. When no specific damages are proven, but the evidence establishes that the Plaintiff has in fact suffered damages to its reputation and goodwill by reasons of the Defendant's use of its name, the Plaintiff will be entitled to nominal damages⁴⁶.

Even if at large, the Court must do its best to arrive at a figure which is just in all the circumstances of the case⁴⁷. When the infringement is deliberate and clearly an attempt to attract the Plaintiff's business and goodwill, the award of damages may be larger than nominal, but cannot be very substantial when there is lack of evidence of specific damages⁴⁸.

The word "goodwill" was defined by Mr. Justice Thurlow as follows in the *Clairol*⁴⁹ case "... the goodwill attaching to a trade-mark is, I think, that portion of the goodwill of the business of its owner which consists of the whole advantage, what ever it may be, of the reputation and connection, which may have been built up by years of honest work or gained by lavish expenditure of money and which is identified with the goods distributed by the owner in association with the trade-mark".

In deciding whether the goodwill of the Plaintiff was affected by the actions of the Defendant, the following facts, amongst others, may be considered by the Court in the proper case: the novelty of the parties' business and its attractiveness to the public; the timing of the parties' entry on the market; the

⁴³ *American Cyanamid Co. v. Novopharm Ltd.* (1972) 7 C.P.R. (2nd) 61

⁴⁴ *Signalisation de Montréal Inc. v. Services de Béton Universels Ltée et al.* (1992) 46 C.P.R. (2nd) 199 at 210-211 (F.C.A.), Hugessen, J.

⁴⁵ *Patent Act*, op. cit., s. 55.(3)

⁴⁶ *Visa International Service Association v. Visa Motel Corp.* (1984) 1 C.P.R. (3d) 109 at 118-120 (B.C.C.A.), Nemetz, C.J.B.C.; *Greystone Capital Management Inc. v. Greystone Properties Ltd. et al.* (1999) 87 C.P.R. (3d) 43 at 57-58 (B.C.S.C.), Stromberg-Stein, J.

⁴⁷ *Richardson et al. v. Reed et al.* (1988) 21 C.P.R. (3d) 275 at 283 (O.H.C.), Anderson, J.

⁴⁸ *Richardson et al. v. Reed et al.* op. cit. at 283

⁴⁹ *Clairol International Corp. v. Thomas Supply and Equipment Co.* (1968) 55 C.P.R. 176 at 199

awareness of the Plaintiff's business and goodwill by the Defendant and his intention to derive some benefit from same; the period during which the tort lasted; the effect of the tort on the Plaintiff's business even after the infringement stopped⁵⁰.

While specific damages need not be proven, proof of damages must be brought to the Court. Failing adequate proof, no damages, whether general, specific, punitive or exemplary will be granted⁵¹.

ii) relevance of lost sales

Damages in trade-mark cases are usually not assessed on the basis of the Plaintiff's lost profits on sales it would have made, but for the infringement by the Defendant. This may be logically explained in view of the difficulty for a Plaintiff to show that sales are lost merely by reasons of the use of a trade-mark in association with a particular product. In today's competitive world, numerous similar products are available under different trade-marks and consequently, it would generally be easy for the Defendant to show that a sale he made, would not have necessarily gone to the Plaintiff, but may have been made by many other competitors. In patent cases, where there is a monopoly on a unique characteristic of the product itself (as opposed to a monopoly on the trade-mark it bears or its appearance), it may be more difficult for the Defendant to show that many products of substitution were available.

Even when counterfeiting of famous trade-marks occurs and copies are sold at the fraction of the price of the original, the Plaintiff would have difficulty to show that it would have made the infringing sales.

In the case of a product unique in its class and price range, having a limited period of popularity, a Plaintiff may be able to show that it would have made all the sales made by the Defendant and would therefore be entitled to his lost

profits calculated according to principles adopted in patent cases⁵². In *Canwest*⁵³, the Plaintiff tried to prove damages based on lost profits, but was

⁵⁰ *Lee's Food Products Ltd. v. Shafer-Haggart Ltd.* (1984) 81 C.P.R. (2nd) 204, at 214; *Canwest Telephone Co. Inc. v. Canwest Commercial Phone Centre Ltd. et al.*, op. cit. at 365-366

⁵¹ *Cartier Inc. v. Cartier Optical Ltd.* (1988) 20 C.P.R. (3d) 68, at 82 (F.C.T.D.), Dubé, J.; *Sprint Communications Company LP et al. v. Merlin International Communications Inc.* (2000) 9 C.P.R. 4th 307 at 329 (F.C.T.D.), O'Keefe, J.

⁵² *Embee Electronic Agencies Ltd. v. G.S.C. Electronics Ltd. et al.* (1981) 70 C.P.R. (2d) 192 (F.C.A.), Pratte, J.

unsuccessful. Methods of assessing damages in patent cases are not principles of law⁵⁴. In the *Embee* case (a trade-mark case), the damages were assessed on the basis of net profits (taking into account all the indirect costs that would have been assumed by the Plaintiff if it had made the sale⁵⁵).

iii) royalties

It is also unusual in trade-mark cases, to assess damages on the basis of a “reasonable royalty”. However, when a license agreement between the Plaintiff and the Defendant was in place and the Defendant continues to sell the trade-marked goods after the termination of the license agreement (the sales thus becoming infringing sales) it is fair to calculate the measure of damages based on the original agreement⁵⁶.

iv) entitlement - trade-mark owner - licensee

Proceedings in infringing may be initiated by the trade-mark owner or its licensee⁵⁷. Compensation for the damages sustained by either the owner or its licensee may be awarded by the Court if satisfied that any act has been done, contrary to the *Trade-mark Act*⁵⁸.

2.4 COPYRIGHT

i) general damages

Actual damages may be assessed on the basis of the profits lost by the copyright owner due to lost sales of the copyrighted material, even if the infringer made no profits⁵⁹ or, alternatively, on the basis of the amount of

⁵³ *Canwest Telephone Co. Inc. et al. v. Canwest Commercial Phone Center Ltd. et al.*, op. cit., at 360

⁵⁴ *Embee Electronic Agencies Ltd. v. G.S.C. Electronics Ltd. et al.*, op. cit. at 199

⁵⁵ *Embee Electronic Agencies Ltd. v. G.S.C. Electronics Ltd. et al.*, op. cit. at 199 (F.C.A.)

⁵⁶ *Ann of Green Gables Licensing Authority Inc. et al. v. Avonlea Traditions Inc.* (2000) 4 C.P.R. (4th) 289 at 362

⁵⁷ *Trade-mark Act*, op. cit. s. 50.(3)

⁵⁸ *Trade-mark Act*, op. cit. s. 53.(2)

⁵⁹ *Fletcher v. Polka Dot Fabrics Ltd. et al.* (1993) 51 C.P.R. (3d) 241 at 255; *U & R Tax Services Ltd. v. H.R. Block Canada Inc.*, op. cit., at 272

royalty the copyright owner would have received under a negotiated license⁶⁰.

Even if evidence to support a calculation on the above-mentioned basis is not available, damages will nevertheless be awarded. Copyright is said to be a property that is a wasting asset⁶¹. When copyright infringement is established and actual loss or specific damages cannot be proven but, nevertheless, it is shown that damages resulted directly from the infringement, damages will be granted “at large” and may be dealt with broadly, as a matter of common sense, without professing to be minutely accurate⁶².

A copyright infringer cannot escape a condemnation in damages merely because they are impossible or difficult to prove. Damages can be granted for breach of the *Copyright Act* without the necessity to prove them and if damages are difficult to assess or cannot be evaluated, the Court must do the best it can, even if it amounts to a matter of guesswork and the assessment becomes arbitrary⁶³.

The Court has a wider discretion in assessing general damages in copyright cases than in other branches of the law in view of the difficulty of proving precisely what loss of revenues has resulted from the Defendant’s illegal use of the Plaintiff’s business property. When damages cannot be determined with precision, the determination of damages must, to a large extent, be a rough and ready-one⁶⁴. However, liability must not be speculative, only the

⁶⁰ *MCA Canada Ltd. v. Gillberry and Hawke Advertising Agency Ltd. et al.* (1976) 28 C.P.R. (2d) 52 at 56; *Pro Harts Inc. v. Campus Crafts Holdings Ltd.* (1980) 50 C.P.R. (2d) 230 at 243; *MLW Systems In Education Ltd. v. Harts Systems Ltd.* (1988) 22 C.P.R. (3d) 90 at 92; *Cartes-En-Ciel Inc. v. Boutique Elfe Inc.* (1991) 43 C.P.R. (3d) 416 at 422

⁶¹ Fox, Harold G., *Canadian Law of Copyright and Industrial Design*, 2nd ed. 1967, at p. 459; *National Film Board v. Bier* (1970) 63 C.P.R. 164 at 179; *T.J. Moore Co. Ltd. v. Accessoires de Bureau de Québec Inc.* (1973) 14 C.P.R. (2d) 113 at 125

⁶² *T.J. Moore co. Ltd. v. Accessoires de Bureau de Québec Inc.*, op. cit. at 125; *C.P. Koch Ltd. et al. v. Continental Steel Ltd. et al.* (1984) 82 C.P.R. (2nd) 156 at 165; *Bemben & Kuzych Architects et al. v. Greenheaven-Carnegy Developments Ltd. et al.* (1992) 45 C.P.R. 93d) 499 at 493; *Prism Hospital Software Inc. et al. v. Hospital Medical Records Institute et al.*, op. cit., at 225;

⁶³ *Webb & Knapp (Canada) Ltd. v. Edmonton (City)* (1970) S.C.R. 588 at 601; *Les Rôtisseries St-Hubert Ltée v. Le Syndicat des Travailleurs(euses) de la Rôtisserie St-Hubert de Drummondville C.S.N. et al.* (1987) 12 C.I.P.R. 89 at 106-107; *Sedgewick v. Atlantic Media Works Ltd.* (1991) 38 C.P.R. (3d) 527; *U & R Tax Services Ltd. v. H.R. Block Canada Inc.* (1995) 62 C.P.R. (3d) 257 at 271

⁶⁴ *Slumber-Magic Adjustable Bed Co. Ltd. v. Sleep-King Adjustable Bed Co. Ltd.*, op. cit., at 88-89; *Performing Rights Organization of Canada Ltd. v. Glenn Greening* (1990) 32 C.P.R. (3d) 211 at 216;

measurement of liability in terms of dollars. In such cases, at the very least, the Plaintiff will be entitled to nominal damages, not necessarily small⁶⁵.

In assessing damages, the Court will consider the amount of profits made by the infringer as a result of the infringement, the loss of public and professional recognition of the copyright owner resulting from the infringement, the fair remuneration the copyright owner should receive⁶⁶, the conduct of the infringer and whether he persisted after notice⁶⁷. The Court will also consider the fact that the copyright owner might have been deprived of the chance to have his persona and advise receive credit for any success derived from the use made of the copyrighted publication and the improper attempt of the infringer to earn profits and gain some financial advantage from the work of another⁶⁸. When the infringer shows that he was unaware and could not suspect that copyright existed in the work, the only remedy is an injunction⁶⁹.

ii) account of profits

In addition to damages, the infringer is liable to pay to the copyright owner such part of the profits he made from his infringement, as the Court considers just⁷⁰. The profits of the infringer will be established following an accounting. The Plaintiff is required to prove revenues and the Defendant has the burden of proving any costs he wants to offset against the revenues. Even when a Defendant is uncooperative and denies a full accounting of his profits, the Plaintiff must pursue all legal avenues to obtain enough information to provide the Court with data on which a judgment can be based⁷¹.

iii) conversion

Damages for "conversion" are no longer available in Canada, except if proceedings introduces immediately before the coming into force of section

⁶⁵ *Performing Rights Organization of Canada Ltd. v. Glenn Greening*, op. cit., at 213; *Robert D. Sullivan Architects Ltd. v. Montykola Investments Inc. et al.* (1995) 61 C.P.R. (3d) 447 at 462-463; *Weiss v. Prentice Hall Canada Inc. et al.* (1995) 66 C.P.R. (3d) 417 at 429-430;

⁶⁶ *Bemben & Kuzych Architects et al. v. Greenheaven-Carnegy Developments Ltd. et al.*, op. cit., at 493

⁶⁷ *Tom Hopkins International Inc. v. Wall & Redekop Realty Ltd.* (1984) 1 C.P.R. (3d) 348 at 353

⁶⁸ *Weiss v. Prentice Hall Canada Inc. et al.*, op. cit., at 429

⁶⁹ *Copyright Act*, op. cit. s. 39(1); *Breen v. Hancock House Publishers Ltd. et al.* (1985) 6 C.P.R. (3d) 433 at 437

⁷⁰ *Copyright Act*, op. cit. s. 35.(1)

⁷¹ *Hutton v. Canadian Broadcasting Corporation* (1989) 20 C.P.R. (3d) 398 at 455-459, appeal dismissed (1992) 41 C.P.R. (2d) 45; see also *Fletcher v. Polka Dot Fabrics Ltd. et al.* (1999) 51 C.P.R. (3d) 241 at 256

38.(1) of the *Copyright Act* (September 1st, 1997)⁷². Subject to those transitional rights, conversion damages were abolished in Canada in 1997⁷³. Damages were available for conversion by virtue of the presumption of ownership of the infringing copies in favour of the copyright owner, when such infringing copies were sold or destroyed. Damages for conversion could be awarded by the Court but overlap and duplication had to be avoided⁷⁴.

iv) statutory damages

Since the coming into force of s. 38.(1) of the *Copyright Act* (inspired from US law) on October 1st, 1999, statutory damages, in lieu of damages and profits, may be awarded by the Court at any time before judgement⁷⁵ if the copyright owner so elects. Section 38.1 had no predecessor in the *Copyright Act*.

With respect to all infringements of one work, the Court may award between \$500 and \$20,000. Pursuant to ss. 38.1(5), the Court will set the amount considering all relevant factors including the good faith or bad faith of the Defendant (good faith is always presumed, bad faith must be established) the conduct of the parties and the need to deter other infringements of the copyright in question. These criteria are not exhaustive. Other factors have been considered by US Courts such as; the attitude and conduct of the Defendant which make difficult the assessment of damages⁷⁶, the fact that the offence is repetitious⁷⁷, the fact that the Defendant was a repeat offender⁷⁸, the degree of sophistication of the Defendant⁷⁹, the loss of profits of Plaintiff and gains of the Defendant⁸⁰.

In one of the first case in which ss. 38.1(5) was considered, Mr. Justice Nadon of the Federal Court of Canada awarded the sum of \$10,000⁸¹.

⁷² S.C. 1997, c. 24, s. 20(2)

⁷³ *Copyright Act*, s. 38.(5)

⁷⁴ *Tom Hopkins International Inc. v. Wall & Redekop Realty Ltd.* (1984) 1 C.P.R. (3d) 348 at 353; *Les Éditions JCL Inc. v. 91439 Canada Ltée* (1995) 1 F.C. 380 at 385-390

⁷⁵ *F.W. Woolworth Co. v. Contemporary Arts Inc.* 95 U.S.P.Q. 396 (Supreme Court 1952) at 231-233

⁷⁶ *Monogram Models Inc. v. Industro Motive Corp.*, 181 U.S.P.Q. 425; *R.S.O. Records Inc. v. Perry*, 225 U.S.P.Q. 407

⁷⁷ *Delman Fabrics Inc. v. Holland Fabrics Inc.*, 228 U.S.P.Q. 596; *Superior Form Builders Inc. v. Dan Chase Taxidermy Supply Co.*, 37 U.S.P.Q. (2nd) 1571

⁷⁸ *Lauratex Textile Corp. v. Allton Knitting Mills Inc.*, 214 U.S.P.Q. 203

⁷⁹ *D.C. Comics v. Mini Gift Shop*, 15 U.S.P.Q. (2nd) 1888

⁸⁰ *Basic Books Inc. v. Kinko's Graphic Corp.*, (1989-1990) C.L.D. no. 26, 709 18 U.S.P.Q. (2nd) 1437

⁸¹ *Wing v. Van Velthuzen*, 2000 Carswell Nath 2873

If the copyright owner elects to be compensated by statutory damages pursuant to section 38.1, his right to obtain exemplary or punitive damages is not affected (s. 38.1(7)).

v) exemplary damages

Exemplary and punitive damages are routinely granted in copyright cases when required as a deterrent, when there is evidence of malice or in case of flagrant, blatant and wilful infringement or outright counterfeiting⁸². When allowed, exemplary damages should be awarded in an amount commensurate with the gravity of the action committed and should reflect the indignation of the Court at the conduct of the Defendant⁸³. No exemplary damages will be granted when the conduct of the Defendant can be characterised as credulous rather than calculatingly fraudulent⁸⁴.

2.5 Industrial designs

i) measure of damages - relevance of patent cases

Very few cases dealing specifically with damages to be awarded when infringement of an industrial design is found were decided in recent years. As in patent cases, generally the measure of damages to be awarded in industrial design cases will be the profit the proprietor of the design would have made, but for the infringement, or the royalty he would have earned, had he licensed the use of his design. On this point, decisions in patent cases are authoritative⁸⁵.

No damages are available to the proprietor of a design if the Defendant establishes that, at the time of the act that is a subject of the proceedings, the Defendant was not aware and had no reasonable grounds to suspect that the design was registered⁸⁶.

⁸² *Zamacois v. Douville & Marchand* (1943) 2 C.P.R. 270 at 302; *MCA (Canada) Ltd. et al. v. Gilberry and Hawke Advertising Agency Ltd. et al.*, op. cit., at 56; *Performing Rights Organisation of Canada Ltd. v. Glenn Greening* op. cit., at 215; *Carte-en-ciel Inc. v. Boutique Elfe Inc.* (1991) 43 C.P.R. (3d) 416; *U & R Tax Services Ltd. v. H. & R. Block Canada Inc.*, op. cit., at 272; *Prise de Parole Inc. v. Guérin Éditeur Ltée* (1995) 66 C.P.R. (3d) 257; *A & E Television Networks v. Alliance Communications Corp.* (1998) 82 C.P.R. (3d) 382 at 384; *Weiss v. Prentice Hall Canada Inc. et al.*, op. cit. at 429-430

⁸³ *Prism Hospital Software Inc. et al. v. Hospital Medical Record Institute et al.*, op. cit., at 285-286

⁸⁴ *Slumber-Magic Adjustable Bed Co. Ltd. v. Sleep-King Adjustable Bed Co. Ltd.*, op. cit., at 89-90

⁸⁵ *Dutailier Inc. v. Maribro Inc.* (1988) 21 C.P.R. (3d) 563 at 547 (F.C.T.D.) Rouleau, J.

⁸⁶ *Industrial Design Act*, s. 17

ii) **lost sales - lost profits - lost royalty**

As the monopoly lies in the design applied to an object and not to the function of the object itself, proof that sales were lost by the proprietor because of the presence of the Defendant's product on the market will have to be clearly established. The burden of proof of actual damages suffered is on the party seeking the damages. Arbitrary and unjustified figures cannot be used to indicate the possible profits lost by the Plaintiff. When a Plaintiff showed that it suffered a decrease in sales, it must also show that the decrease occurred in regions where the parties are in competition. Also, the effect on the Plaintiff's sales of the sales of products by other competitors and the increase or decrease in market demand for the product in issue must also be considered. If the proprietor fails to prove his damages, he will be entitled to nominal damages only⁸⁷.

iii) **entitlement - proprietor - exclusive licensee**

An action for infringement of an industrial design may be brought by the proprietor of the design or by an exclusive licensee⁸⁸. If infringement is found, the Court may grant damages or an account of profits⁸⁹.

2.6 **Punitive and exemplary damages**

Punitive or exemplary damages are an exception to the general rule that damages are compensatory in nature and are not awarded to punish. Punitive damages may be awarded in situation where the Defendant misconduct is malicious, oppressive and highhanded. Punitive damages are granted to punish the Defendant, in the nature of a fine to deter the Defendant and others from acting in the same manner⁹⁰.

As to the amount to be granted, it should be proportional to the gravity of the wrong. The relationship between the parties should be examined and any imbalance in their position considered to ascertain whether the Defendant exploited its dominant position. The financial worth of the Defendant should also influence the amount of the award⁹¹.

⁸⁷ *Dutailier Inc. v. Maribro Inc.*, op. cit. at 546-547

⁸⁸ *Industrial Design Act*, op. cit., s. 15

⁸⁹ *Industrial Design Act*, op. cit., s. 15.1

⁹⁰ *Hill v. Church of Scientology of Toronto* (1995) 2 S.C.R. 1130 at 1208

⁹¹ *Whiten v. Pilot Insurance Co.* (1999) 170 D.L.R. (4th) 280 at 298-300

The Court may consider awarding exemplary damages when a Defendant clearly disregard an interlocutory injunction issued by the Court⁹².

ROBIC + LAW
+ BUSINESS
+ SCIENCE
+ ART

ROBIC + DROIT
+ AFFAIRES
+ SCIENCES
+ ARTS

⁹² *Pro Arts Inc. v. Campus Crafts Holding Ltd.* (1980) 50 C.P.R. (2d) 230 at 249-254; *Lubrizol Corp. et al. v. Imperial Oil Ltd. et al.*, op. cit., at 478

