

Date: 20080613

Docket: T-1905-07

Citation: 2008 FC 737

Ottawa, Ontario, June 13th 2008

PRESENT: The Honourable Mr. Justice de Montigny

BETWEEN:

THE CANADIAN COPYRIGHT LICENSING AGENCY

Plaintiff / Defendant by Counterclaim

and

THE BUSINESS DEPOT LTD.

Defendant / Plaintiff by Counterclaim

REASONS FOR ORDER AND ORDER

[1] This is an appeal by the Defendant/Plaintiff by Counterclaim, The Business Depot Ltd. (“Business Depot”), of an Order of Prothonotary Aalto dated April 30, 2008. In his order, the Prothonotary struck out the Counterclaim of the Defendant without leave to amend and held that “[t]he counterclaim simply does not plead material facts sufficient to support a cause of action under Section 7(a) of the [Trade-marks Act]”. The Prothonotary also ruled that “the [Defendant’s] claims for aggravated, exemplary and punitive damages and the injunctive relief must fail since they flow from the claims arising from Section 7(a)”.

[2] In this appeal, Business Depot argues that the Prothonotary made reviewable errors of law and misapprehended the facts. As a result, it seeks an order allowing this appeal and setting aside the decision of the Prothonotary or, in the alternative, granting Business Depot leave to amend the Statement of Defence and Counterclaim.

I. Factual background

[3] The plaintiff, the Canadian Copyright Licensing Agency (“Access Copyright”) is a non profit corporation that acts as a collective society under section 70.1 of the *Copyright Act* (*R.S., 1985, c. C-42*) (“*Copyright Act*”) to carry out the collective administration of copyright for the benefit of the owners of the copyright in certain published works.

[4] The defendant is a retailer that operates approximately 298 retail locations in Canada under the business names “Staples”, “Business Depot”, “Staples Business Depot”, “Bureau en Gros” and “Staples Bureau en Gros”. Business Depot sells office supplies, business machines and office furniture, and provides business services, including in-store photocopying services, to retail and small business customers.

[5] The plaintiff has alleged in its Statement of Claim that, through its offering of photocopying services, the defendant has engaged in both direct copyright infringement and the authorization of copyright infringement over a period of several years. In its Statement of Defence, Business Depot has defended the infringement claim on the basis, *inter alia*, that it allows its employees to make

copies of works only for patrons who represent that they own the copyright in a particular work or have the permission of the copyright owner to copy the work, that it is not necessary to have a license from Access Copyright to offer photocopying services to the public, and that any copying by Business Depot customers constituted fair dealing pursuant to section 29 of the *Copyright Act*.

[6] Following the filing of the Statement of Claim, the plaintiff issued a press release summarizing the claims being asserted against the defendant in this action. This statement was posted on Access Copyright website, and reads as follows:

FOR IMMEDIATE RELEASE :

Access Copyright Sues Staples/Business Depot for Copyright Infringement

November 15, 2007

Toronto, ON – Access Copyright, an organization representing the copyright of almost 9,000 Canadian writers and publishers is suing Staples/The Business Depot for copyright infringement.

The lawsuit, filed by Access Copyright, contains the largest claim to arise from copyright infringement of published works in Canada.

The lawsuit seeks \$10 million in damages, including a claim for punitive damages.

Staples/Business Depot is a sizeable, for-profit organization that has built part of its business through a lucrative service that exploits the published works of authors, photographers and publishers. Companies that photocopy illegally are effectively taking money directly out of the pockets of creators and publishers who depend on book sales and copyright royalties for their livelihood.

“Companies that profit from illegal photocopying are undermining the work of others”, said Maureen Cavan, Executive Director of Access Copyright. “Staples/Business Depot” is no different from those organizations that profit from illegally downloading copyright

protected music or the unauthorized sharing of videos and published works on the internet.”

Access Copyright has been continuously investigating Staples/Business Depot since 1998 in response to concerns raised by creators and publishers over infringement activities. Despite repeated attempts by Access Copyright to reach a settlement and come to an amicable resolution, Staples/Business Depot has made no perceivable changes to their business practices.

Access Copyright, The Canadian Copyright Licensing Agency, is a not-for-profit organization founded by Canadian creators and publishers to meet the needs of users of copyright protected works, while ensuring fair compensation for that use. Access Copyright works with organizations in all sectors to help them operate legally by providing access to licences that allow for the legitimate use of published copyright protected materials.

[7] In its Counterclaim, the defendant alleged that certain quoted statements in the press release issued by the plaintiff were « false and misleading », « tend to discredit the business, wares and services » of the defendant, and « have damaged the corporate image, reputation and goodwill » of the defendant. As a result, Business Depot claims against Access Copyright general damages in the amount of \$1 million pursuant to section 7(a) of the *Trade-marks Act* (R.S., 1985, c. T-13) (*“Trade-marks Act”*), aggravated, exemplary and punitive damages, and an injunction prohibiting the plaintiff from making any statements that the defendant is infringing any copyright.

[8] Since the hearing of the motion to strike before the Prothonotary, but before the decision was rendered, the defendant commenced a defamation action in the Superior Court of Ontario based upon the same press release statements that were the basis of the counterclaim.

II. The impugned decision

[9] Applying the well known “plain and obvious” test for striking a claim, the Prothonotary was of the view that the pleading fails to meet a clear and legislative imperative which creates the cause of action, and therefore found that it is plain and obvious the counterclaim cannot succeed. More particularly, he found that there is no allegation in the counterclaim that Access Copyright is a competitor of Business Depot, nor that any statement made by Access Copyright relates to any intellectual property of Business Depot.

[10] Quite apart from these defects in the pleadings, the Prothonotary also found that Access Copyright and Business Depot are not competitors within the meaning of s. 7(a) of the *Trade-marks Act*, and that a statement can only be actionable under that provision if it impugns the intellectual property of Business Depot, which it does not.

[11] Finally, the Prothonotary also came to the conclusion that the press release did not amount to a threat to revert to the legal access directed to third persons dealing with the defendant’s product.

III. Standard of review

[12] There is no dispute between the parties that the Prothonotary’s decision with respect to striking the Counterclaim relates to a question that is vital to the final issue of the Counterclaim, as it disposed of the cause of action in the Counterclaim in its entirety. Accordingly, this Court ought

to exercise its discretion *de novo*: *Canada v. Aqua-Gem Investments Ltd.*, [1993] 2 F.C. 425 (F.C.A.), 149 N.R. 273; *Merck & Co., v. Apotex Inc.*, 2003 FCA 488, [2004] 2 F.C.R. 459, (2003).

IV. Issues

[13] At issue in this appeal are the following questions:

- a. What is the test to be applied in determining whether to strike out a pleading pursuant to Rule 221(1)(a) of the *Federal Courts Rules (SOR/98-106)*?
- b. Did the Prothonotary err in determining that the defendant was not a “competitor” of the plaintiff within the meaning of section 7(a) of the *Trade-marks Act*?
- c. Did the Prothonotary err in determining that the scope of section 7(a), as constitutionally restricted by previous court decisions, did not extend to the impugned statements made by the defendant because those statements were not about the intellectual property of the defendant?

V. Analysis

[14] The test for striking out a pleading is well established and has been spelled out by the Supreme Court of Canada in *Hunt v. Carey Canada Inc.*, [1990] 2 S.C.R. 959, 74 D.L.R. (4th) 231. Assuming the facts alleged in the pleadings to be true, it must be “plain and obvious” that the pleading discloses no reasonable cause of action for a claim to be struck out. Since this is quite a draconian measure, the onus of proof on the party seeking to strike pleadings is a heavy one. The

complexity or novelty of the question that the plaintiff wishes to bring to trial should not act as a bar to that trial taking place.

[15] That being said, a claim must nevertheless meet a minimum standard of “reasonableness” and have some chance of success in order to avoid being struck out. As the Federal Court of Appeal stated in *Prentice v. Canada (RCMP)*, 2005 FCA 395, [2006] 3 F.C.R. 135:

[23] A motion to strike a pleading under paragraph 221(1)(a) of the *Federal Court Rules*, on the ground that it discloses no reasonable cause of action will be allowed only if, assuming the facts alleged in the statement of claim to be true, the judge concludes that the outcome of the case is “plain and obvious” or “beyond reasonable doubt” (see *Hunt v. Carey Canada Inc.*, [1990] 2 S.C.R. 959, Wilson J. at page 980). It is clear from what Madam Justice Wilson said that the power to strike out pleadings must be exercised with considerable caution and reluctance and that neither the length or complexity of the issues nor the novelty of the cause of action should prevent a plaintiff from proceeding with his or her action.

[24] That does not mean, however, that a party who advances an unprecedented cause of action will have an easy time of it at the motion to strike stage. The courts are certainly prepared to give such a party his or her day in court, but the cause of action, novel as it may be, must still have some chance of being recognized at the end of the road. A cause of action is not “reasonable” simply because it has not yet been explored. The courts must not naively assume that something novel is or may be part of the normal course of evolution in the law...

(...)

[26] It also goes without saying that it is the facts that are assumed to be true, not the facts as they may be interpreted by the plaintiff in his statement of claim or the legal assertions that he may make in it.

[16] It is therefore with this standard in mind that I must now proceed to determine whether the Prothonotary erred in striking the defendant’s counterclaim without leave to amend.

[17] Section 7(a) of the *Trade-marks Act* provides as follows:

Prohibitions	Interdictions
7. No person shall	7. Nul ne peut :
(a) make a false or misleading statement tending to discredit the business, wares or services of a competitor;	a) faire une déclaration fausse ou trompeuse tendant à discréditer l'entreprise, les marchandises ou les services d'un concurrent;

[18] It appears from the wording of that subparagraph that the “competitor” requirement is a fundamental element of section 7(a). Yet, there is no allegation in the counterclaim that the plaintiff is in any way a “competitor” of the defendant. On its face, the counterclaim is therefore deficient as it fails to allege on of the constituent elements of the statutory prohibition.

[19] Leave could obviously be granted to amend the counterclaim. But the real issue is whether it could reasonably have been alleged that the plaintiff is in any way a competitor of the defendant. The Prothonotary found that the parties are clearly not in the same business and could not be described as competitors, especially in light of the fact that one is a non-profit corporation established to carry out the collective administration of copyright for the benefit of the owners of copyright in certain published works while the other carries on a retailing business.

[20] It is no doubt true, as argued by the defendant, that there is no definition of “competitor” in the *Trade-marks Act*, and there is no definitive case law on this issue. But is that sufficient to

conclude that there exists a contentious legal issue of statutory interpretation to be resolved, and a reasonable cause of action that should be left for argument at trial? I do not think so.

[21] In the absence of any specific definition of a word in a statute, it must be given its natural meaning, taking into account the objective of the Act. Dictionaries are replete with definitions of “competitors” and “competition” which, by and large, accord with the Prothonotary’s own interpretation. *West’s Law and Commercial Dictionary in Five Languages* (west Publishing Company, 1985), for example, defines “competitors” as “persons endeavoring to do the same thing and each offering to perform the act, furnish the merchandise, or render the service better or cheaper than his rival”. Similarly, the *Pocket Dictionary of Canadian Law* (Thomson Carswell, 4th ed., 2006) ascribes to the word “competition” two meanings, the most relevant of which for our purposes being “a situation when two or more businesses seek customers in the same market-place”.

[22] The defendant argues that a non-profit copyright collective like the plaintiff can be a “competitor” of a retailer like the defendant because each party alleges that their revenue is affected by the other party’s activities. Indeed, Access Copyright alleges in its Statement of Claim that it has lost income, royalties and opportunities to enter into licenses because of Business Depot’s activities, while Business Depot alleges in the Counterclaim that the press release aimed to coerce it to take a license. To put it differently, the defendant argues that the parties are competitors because Access Copyright is competing for revenue generated from photocopy sales, directly by trying to coerce Business Depot to pay part of its photocopying revenue to Access Copyright, and indirectly because Access Copyright earns revenue through licensing other photocopy service providers in Canada.

[23] This argument, though appealing, cannot hold sway. It is a matter of common sense that a “competitor” of the defendant must compete with the defendant for customers in the marketplace. The plaintiff clearly does not do so, either directly or indirectly. Far from competing with retailers, it provides them with copyright licenses that they require in order to carry on their businesses. Indeed, the defendant offers no explanation of how the plaintiff can offer a license to the defendant and yet remain a “competitor”.

[24] The defendant’s arguments rely upon the fact that the plaintiff is entitled to a portion of the photocopying revenue earned by retailers like the defendant when they reproduce the plaintiff’s copyright works, but this should not be confused with competing for photocopying customers or revenues. It seems to me the royalties to be paid by the defendant to the plaintiff should be more properly equated to the various costs incurred by a retailer involved in a business similar to that of the defendant. The fact that a rent increase may have an impact on a retailer’s profit, for example, does not make the landlord a competitor of the defendant.

[25] I am therefore of the view that the Prothonotary was correct, on the facts before him, in finding that Business Depot and Access Copyright are not competitors for the purpose of subsection 7(a) of the *Trade-marks Act*. They simply do not sell the same products, and they are not in the same market. Even if it could be argued that Access Copyright is losing revenue as a result of its licensed photocopy service providers themselves being stripped of photocopying revenues at the expense of Business Depot, this would still not be sufficient to consider that they are competing

with each other. Loss of revenue in such an indirect way does not turn a non-profit corporation, established to carry out the collective administration of copyright, into a competitor of a retailer. In coming to that conclusion, I do not need to determine whether a licensor is always to be excluded from the ambit of subsection 7(a). It may be that in some circumstances, a licensor and a licensee can be competitors. But this is clearly not the case here, and there is no need for a trial to determine that issue. Nothing that could be added to the pleading would enable the defendant to obviate this obstacle.

[26] This finding, in and of itself, would be sufficient to dispose of the appeal. But the Prothonotary gave another reason for striking out the counterclaim. As already mentioned, he came to the conclusion that the cause of action, pursuant to s. 7(a) of the *Trade-marks Act*, must relate to a false and misleading statement made in respect of a trade mark or other intellectual property. As there is no allegation that any statement made by Access Copyright relates to any trade mark or intellectual property of Business Depot, but only refers to infringing business activities, he found that the counterclaim could not stand.

[27] It is not in dispute that section 7(a) of the *Trade-marks Act* creates a cause of action that is similar to the tort of slander of title or injurious falsehood and has the same requirements: (a) a false and misleading statement; (b) tending to discredit the business, wares and services of a competitor; and (c) resulting damage. The Supreme Court of Canada has held, however, that the scope of section 7(a) must be further “read down” in order to be constitutionally valid. Section 7(a) can only be a constitutionally valid enactment of the federal Parliament if it is limited to “rounding out” the

regulatory scheme in the *Trade-marks Act*. For section 7(a) to be valid, its application must be limited to creating a cause of action relating to false and misleading statements made about a trade-mark or other intellectual property owned by the claimant. As Chief Justice Laskin stated in *MacDonald v. Vapor Canada Ltd. (1977)*, 66 D.L.R. (3d) 1, [1977] 2 S.C.R. 134, at pp. 172-173:

...Neither s. 7 as a whole, nor section 7(e), if either stood alone and in association only with s. 53, would be valid federal legislation in relation to the regulation of trade and commerce or in relation to any other head of federal legislative authority. There would, in such a situation, be a clear invasion of provincial legislative power. Section 7 is, however, nourished for federal legislative purposes in so far as it may be said to round out regulatory schemes prescribed by Parliament in the exercise of its legislative power in relation to patents, copyrights, trade marks and trade names.

See also: Gill and Jolliffe, *Fox on Canadian Law of Trade-marks and Unfair Competition*, 4th ed., Toronto, Thomson Carswell, 2002, at p. 2-23.

[28] In an attempt to avoid the limitations set by the Supreme Court, the defendant argues that the elements of section 7(a) of the *Trade-marks Act* form the basis for a cause of action if there is an association between the false and misleading statements and the intellectual property either of the plaintiff or of the defendant. The Prothonotary therefore erred, according to the defendant, in holding that the abuse of rights must relate to intellectual property belonging to Business Depot, not Access Copyright. In any event, contends the defendant, there is a link between Access Copyright's statements and the intellectual property both of Business Depot and of Access Copyright.

[29] As for the association with Business Depot's intellectual property, the defendant contends that the requirement does not mean that the statement must be "about" the trade mark, trade name or other intellectual property of the claimant, but merely that it "evokes" such intellectual property.

The sole authority for this proposition is an injunction decision of the Ontario Court (General Division) in *Maple Leaf Foods Inc. v. Robin Hood Multifoods Inc.* (1994), 58 C.P.R.(3d) 54, 17 B.L.R. (2d) 86 which does not mention section 7(a) and merely notes that the plaintiff had an arguable case in order to justify an interlocutory injunction. Not only was the distinction now suggested by the defendant not mentioned or discussed by the court, but the advertisements complained of included the plaintiff's trade-marks. None of the other cases that have specifically dealt with section 7(a) support this argument by the defendant.

[30] The defendant also submits that section 7(a) serves to limit the extent to which owners of intellectual property can assert their rights in intellectual property. According to the defendant, that section is *intra vires* when the basis for a false and misleading statement is an allegation of unauthorized use of intellectual property. In the present case, so goes the argument, Access Copyright has made untrue statements about the scope of its interest in copyright, accusing Business Depot of copyright infringement. Such statements constitute an abuse of rights granted by the Copyright Act, contends the defendant.

[31] In support of its argument, the defendant relied on a line of patent abuse cases in which defendants threatened (but had not commenced) infringement proceedings in order to intimidate customers into refusing to deal with a competitor. It is true that in *Riello Canada, Inc. v. Lambert*, [1986] 3 F.T.R. 23, 9 C.P.R.(3d) 324 (*Riello*) and in *S. & S. Industries Inc. v. Rowell*, [1966] S.C.R. 419, 56 D.L.R. (2d) 501 (*S. & S. Industries Inc.*) the statements at issue referred to the writer's

intellectual property (contrary to what the Prothonotary stated in referring to *Riello*), just as Access Copyright's statement referred to Access Copyright's intellectual property.

[32] But this is not sufficient to overturn the Prothonotary's decision. The line of patent abuse cases, commencing with the decision of the Supreme Court in *S&S Industries*, has clearly limited the validity of a section 7(a) claim to the improper assertion of patent rights without the commencement of an infringement action, and is an extension of the common law in the 19th century. But this line of cases has never been applied to copyright claims or to statements made after litigation has been commenced (*Safematic, Inc. v. Sensodec Oy* (1988), 20 FTR 132, 21 C.P.R.(3d) 12; *Levi Strauss & Co. v. Timberland Co.* (1997), 74 C.P.R. (3d) 49, 79 A.C.W.S. (3d) 929)..

[33] The facts of this case are quite different from those at issue in *Riello*. Access Copyright did not say to potential consumers that they owe royalty to licensors. Moreover, Business Depot can certainly run its business without a license, provided it does not infringe the *Copyright Act*. Section 7(a) of the *Trade-marks Act* deals essentially with trade liability, and relates to unfair competition. While it has been expended to cover false misleading statements related to patents, it has never been used in the context of copyright, especially when a statement has been made after an action has been launched.

[34] The defendant does not dispute that once its claim pursuant to section 7(a) of the *Trade-marks Act* was struck out, there was no remaining cause of action upon which a claim for aggravated, exemplary and punitive damages or an injunction can be founded.

[35] As a result of the foregoing, this appeal from the decision of the Prothonotary is dismissed, and his decision striking out the Counterclaim of the defendant without leave to amend is confirmed.

ORDER

THIS COURT ORDERS that:

- The appeal is dismissed;
- The decision of the Prothonotary striking out the Counterclaim of the defendant without leave to amend is confirmed;
- The time for the delivery by the plaintiff of its reply is extended to 30 days from the date of this Order; and
- Costs of this motion and costs of the motion before the Prothonotary are awarded to the plaintiff, to be computed in accordance with the middle of Column III of Tariff B of the *Federal Courts Rules*.

"Yves de Montigny"

Judge

FEDERAL COURT

SOLICITORS OF RECORD

DOCKET: T-1905-07

STYLE OF CAUSE: The Canadian Copyright Licensing Agency
v.
The Business Depot Ltd.

PLACE OF HEARING: Toronto, Ontario

DATE OF HEARING: May 26, 2008

**REASONS FOR ORDER
AND ORDER BY:** de MONTIGNY J.

DATED: June 13, 2008

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