

Federal Court



Cour fédérale

Date: 20110321

Docket: T-1591-09

Citation: 2011 FC 348

Ottawa, Ontario, March 21, 2011

PRESENT: The Honourable Mr. Justice Phelan

BETWEEN:

PERFECT 10, INC.

Plaintiff

and

**GOOGLE, INC. and GOOGLE CANADA
CORPORATION**

Defendants

REASONS FOR JUDGMENT AND JUDGMENT

I. INTRODUCTION

[1] This is an appeal by Google Inc. (Google US) and Google Canada Corp. (Google CA), the Defendants in the action, from a decision of the Learned Prothonotary dismissing the Defendants' motion for an order striking out the Statement of Claim, dismissing the action or otherwise for an order staying the action.

[2] This appeal was principally focused on the issue of whether or not a stay should be granted because the Plaintiff was pursuing the Google group of companies (including Google US and Google CA) in an action in the United States District Court for the Central District of California.

II. FACTUAL BACKGROUND

[3] The Plaintiff, Perfect 10, Inc. (Perfect 10), is a California corporation conducting business out of California. Its business consists mainly of selling, on its website, “adult” images of mostly naked women. It does not have an office or any employees in Canada. It had 13 Canadian customers out of 600 worldwide at the time of this initial litigation.

[4] The Defendant Google US is a Delaware company with its head office in California. It operates its web and image search services from outside Canada but such services are available through the domain name – www.google.ca. It is the registrant of the domain name and is the trademark owner in Canada of the mark “GOOGLE”.

[5] The Defendant Google CA, a wholly-owned subsidiary of Google US, is a Nova Scotia corporation (an unlimited liability corporation) with offices in Canada consisting of a sales team targeting certain Canadian advertisers, publishers and enterprise customers as well as conducting research and development activities unrelated to its web and image search activities. Google US exercises executive level control over Google CA.

[6] In 2004, the Plaintiff commenced the U.S. action alleging copyright and trade-mark infringement, trade-mark dilution, unfair competition, violation of publicity rights, unjust enrichment and misappropriation.

[7] The gravamen of the U.S. action is that Google US (a term which draws no distinction between the various Google companies) copies Perfect 10's works from third party websites and then displays them on Google US's site either as thumbnails or full size images without requiring a searcher to go through Perfect 10's website or subscribe to Perfect 10's services.

[8] Not only does the U.S. action not distinguish as to activities between Google US and its subsidiaries but it names Google CA as a defendant. Perfect 10 alleges that the Google group operates the internet website google.com, along with multiple foreign versions of that website that are accessible in the United States and throughout the world.

[9] Perfect 10 has been unsuccessful in two injunction applications including one that sought a worldwide injunction. The U.S. action is well advanced, discoveries have occurred and summary judgment motions were pending.

[10] In the U.S. action, the Defendants have pleaded the territorial limitation of the U.S. court and subject matter jurisdiction. Google CA is in the U.S. action principally for purposes of injunctive relief.

[11] In the Canadian action in this Court, Perfect 10 alleges copyright infringement against Google US and Google CA related to their actions and service in Canada. The allegation is that Google US offers search functions through its sites which directly and/or indirectly reproduce infringing copies of the images in which Perfect 10 claims copyright. Perfect 10 alleges that Google CA sells advertising in Canada on the Google US site and both Google companies reproduce, distribute and communicate copies of Perfect 10's materials in Canada.

[12] The infringing conduct is alleged to occur in Canada and constitutes breaches of s. 27(1), (2) (b)-(e), and 3(1)(a), (b) of the Canadian *Copyright Act*.

[13] On July 15, 2010, the Learned Prothonotary dismissed the Defendants' motion, the critical findings being:

- the copyright infringement claims in either jurisdiction are in respect of rights under separate national legislative schemes;
- it is not for this Court, at this time, to decide the potential for extra-territorial enforcement or other practical effects of a decision;
- separate copyright infringement actions alone are not abuse of process;
- while the evidence and impugned conduct may be the same before the U.S. and Canadian courts, the legal meaning and the rights invoked may be different;
- on the matter of *forum non conveniens*, the Learned Prothonotary based her conclusion in part on the absence of geographical overlap of the Plaintiff's two actions, the availability of different defences and the absence of a request to the U.S. court for relief in respect of activities in Canada;

- pursuant to s. 50(1)(a) of the *Federal Courts Act*, neither the claims nor the parties are the same and therefore it was unnecessary to address the next step – an analysis of prejudice – in concluding that the Defendants failed to meet the requirements of s. 50(1)(a) of the *Federal Courts Act*.

[14] The Defendants have appealed the Learned Prothonotary's decision.

III. LEGAL ANALYSIS

[15] The Defendants argue that the issues in this appeal are: (1) Did the Learned Prothonotary err by elevating certain of the *forum non conveniens* factors to be threshold conditions; and (2) Is there any reason to have two parallel cases proceeding at the same time.

The Defendants frame the issues in this manner because they contend that the standard of review is correctness because the decision is one of law.

[16] The Plaintiff frames the issues as (1) Was the Learned Prothonotary clearly wrong in concluding that the claims are not the same; and (2) Was the Learned Prothonotary clearly wrong when she concluded that this action was not an abuse of process.

A. *Standard of Review*

[17] The applicable test is set forth in *Canada v Aqua-Gem Investments Ltd. (C.A.)*, [1993] 2 FC 425, and referred in *Merck & Co., Inc. v Apotex Inc. (F.C.A.)*, [2004] 2 FCR 459, in respect of discretionary orders. Such orders are not to be disturbed as *de novo* review unless:

- (a) the questions raised are vital to the final issue in the case or

- (b) the decision is clearly wrong in that it was based upon a wrong principle or misapprehension of facts.

[18] There are two aspects of the Learned Prothonotary's decision at issue: (a) the decision not to strike a claim for abuse of process and (b) a decision not to stay the proceedings. Both decisions are discretionary and the Court should respect (defer to) the authority of the Learned Prothonotary except in limited circumstances.

[19] The arguments before the Court, and perhaps before the Learned Prothonotary, tended to conflate the abuse of process issue, with s. 50(1)(a) and (b) issues, with the *forum non conveniens* considerations. While there is some overlap, it is important to keep the separate issues in mind.

B. *Abuse of Process*

[20] The Learned Prothonotary's conclusion on this issue is not a matter which this Court should review. Rule 221 is a discretionary matter based principally on mixed fact and law appropriately within the purview of the Learned Prothonotary.

221. (1) On motion, the Court may, at any time, order that a pleading, or anything contained therein, be struck out, with or without leave to amend, on the ground that it

(a) discloses no reasonable cause of action or defence, as the case may be,

(b) is immaterial or redundant,

221. (1) À tout moment, la Cour peut, sur requête, ordonner la radiation de tout ou partie d'un acte de procédure, avec ou sans autorisation de le modifier, au motif, selon le cas :

a) qu'il ne révèle aucune cause d'action ou de défense valable;

b) qu'il n'est pas pertinent ou qu'il est redondant;

(c) is scandalous, frivolous or vexatious,	c) qu'il est scandaleux, frivole ou vexatoire;
(d) may prejudice or delay the fair trial of the action,	d) qu'il risque de nuire à l'instruction équitable de l'action ou de la retarder;
(e) constitutes a departure from a previous pleading, or	e) qu'il diverge d'un acte de procédure antérieur;
(f) is otherwise an abuse of the process of the Court, and may order the action be dismissed or judgment entered accordingly.	f) qu'il constitue autrement un abus de procédure. Elle peut aussi ordonner que l'action soit rejetée ou qu'un jugement soit enregistré en conséquence.
(2) No evidence shall be heard on a motion for an order under paragraph (1)(a).	(2) Aucune preuve n'est admissible dans le cadre d'une requête invoquant le motif visé à l'alinéa (1)a).

[21] The effect of a finding of abuse of process would have been to strike the claim in its entirety. It would mean that, at this early stage, the Court would have to conclude that the U.S. and Canadian cases are so similar in fact, law and scope or reach that to allow the Canadian claim to proceed would be abusive.

[22] The Learned Prothonotary examined the pleadings, noted the difference in legislative regimes between the U.S. and Canada, the different rights which potentially flow therefrom, the differences in parties and the potential scope and limitation of jurisdiction and enforcement.

[23] The Learned Prothonotary is entitled to deference in respect of these conclusions. I see no error in principle or misapprehension of fact at this early stage.

[24] As noted in *Ridgeview Restaurant Ltd. v Canada (Attorney General)*, 2010 FC 506, the Court is not always consistent on the question of whether a refusal to strike a pleadings is “vital to the final issues of the case”. This is not surprising because what is “vital” depends on the particular case. Rigid categorization is not helpful; the conclusion of what is vital must depend on the circumstances of each case. Modern tort law arose from a motion to strike (*Donoghue v. Stevenson*, [1932] AC 562 (HL)) and given the circumstances, regardless of the result, it is arguable that the issue of “duty of care” at that time in legal developments was vital.

[25] No such parallel exists on these facts. The Learned Prothonotary’s determination not to strike was based on accepted legal principles and did not strike at the core of the action.

C. Section 50/Forum Non Conveniens

[26] Section 50(1) requires the Court to consider two matters in exercising its discretion to stay a proceeding: (1) that the claim is before another court or jurisdiction; (2) for other reasons it is in the interests of justice to grant a stay.

50. (1) The Federal Court of Appeal or the Federal Court may, in its discretion, stay proceedings in any cause or matter

(a) on the ground that the claim is being proceeded with in another court or jurisdiction;
or

(b) where for any other reason it is in the interest of justice that the proceedings be stayed.

50. (1) La Cour d’appel fédérale et la Cour fédérale ont le pouvoir discrétionnaire de suspendre les procédures dans toute affaire :

a) au motif que la demande est en instance devant un autre tribunal;

b) lorsque, pour quelque autre raison, l’intérêt de la justice l’exige.

(2) The Federal Court of Appeal or the Federal Court shall, on application of the Attorney General of Canada, stay proceedings in any cause or matter in respect of a claim against the Crown if it appears that the claimant has an action or a proceeding in respect of the same claim pending in another court against a person who, at the time when the cause of action alleged in the action or proceeding arose, was, in respect of that matter, acting so as to engage the liability of the Crown.

(2) Sur demande du procureur général du Canada, la Cour d'appel fédérale ou la Cour fédérale, selon le cas, suspend les procédures dans toute affaire relative à une demande contre la Couronne s'il apparaît que le demandeur a intenté, devant un autre tribunal, une procédure relative à la même demande contre une personne qui, à la survenance du fait générateur allégué dans la procédure, agissait en l'occurrence de telle façon qu'elle engageait la responsabilité de la Couronne.

(3) A court that orders a stay under this section may subsequently, in its discretion, lift the stay.

(3) Le tribunal qui a ordonné la suspension peut, à son appréciation, ultérieurement la lever.

(Underlining by Court)

[27] The matter of “*forum non conveniens*” falls within the 2nd branch of the s. 50(1) analysis, as potentially do a number of other legal principles directed at interest of justice generally. Section 50(1)(b) is a broad provision to give the Court the jurisdiction to control its process. The principle of *forum non conveniens* principally engages an analysis of prejudice to one or more parties or to the administration of justice.

[28] The Court has developed a number of factors which the Court will consider under the “interests of justice” test. It has further refined the factors to consider in the context of specifically *forum non conveniens* arguments.

[29] The Learned Prothonotary's decision in respect of these issues and particularly s. 50(1) becomes problematic when the Learned Prothonotary concludes that having decided that the Defendants have not met the test of s. 50(1)(a) (claim proceeding in another jurisdiction), she held that she did not have to engage in an "interest of justice" analysis. In this regard, with great respect, I cannot concur.

[30] Section 50(1) interposes "or" between the distinctly different concepts of "same claim" and "interests of justice". To give effect to Parliament's intent, the Court is to consider both concepts or branches in the exercise of discretion whether to stay a proceeding.

[31] In respect of stays, the Federal Court of Appeal, in confirming the decision in *Tractor Supply Co. of Texas, LP v TSC Stores L.P.*, 2010 FC 883, reinforced the applicability to stays generally of *White v E.B.F. Manufacturing Ltd.*, 2001 FCT 713, paragraph 5:

5 Paragraph 50(1)(a) of the Act provides that the Court may in its discretion stay proceedings in any cause or matter on the ground that the claim is being proceeded within another Court or jurisdiction. The jurisprudence in the matter has established several useful criteria to determine whether such a stay should be granted. (*Discreet Logic Inc. v. Canada (Registrar of Copyrights)* 1993 CarswellNat 1930, 51 C.P.R. (3d) 191, affirmed (1994), 55 C.P.R. (3d) 167 (Fed. C.A.); *Plibrico (Canada) Limited v. Combustion Engineering Canada Inc.*, 30 C.P.R. (3d) 312 at page 315; *Ass'n of Parents Support Groups v. York*, 14 C.P.R. (3d) 263; *Compulife Software Inc. v. Compuoffice Software Inc.*, 1997 CarswellNat 2482, 77 C.P.R. (3d) 451, 143 F.T.R. 19; *94272 Canada Ltd. v. Moffatt*, 31 C.P.R. (3d) 95 and *General Foods v. Struthers*, [1974] S.C.R. 98). They are abridged and assembled as follows for convenience.

1. Would the continuation of the action cause prejudice or injustice (not merely inconvenience or extra expense) to the defendant?

2. Would the stay work an injustice to the plaintiff?
3. The onus is on the party which seeks a stay to establish that these two conditions are met;
4. The grant or refusal of the stay is within the discretionary power of the judge;
5. The power to grant a stay may only be exercised sparingly and in the clearest of cases;
6. Are the facts alleged, the legal issues involved and the relief sought similar in both actions?
7. What are the possibilities of inconsistent findings in both Courts?
8. Until there is a risk of imminent adjudication in the two different forums, the Court should be very reluctant to interfere with any litigant's right of access to another jurisdiction;
9. Priority ought not necessarily be given to the first proceeding over the second one or, *vice versa*.

[32] The Federal Court had noted the potentially limited relevance of the *RJR-MacDonald (RJR-MacDonald Inc. v Canada (Attorney General)*, [1994] 1 SCR 311) analytical framework. The parties in this case agree that *RJR-MacDonald* is not helpful here and I concur.

[33] As to the Learned Prothonotary's conclusions on the first branch of s. 50(1) – the same claim proceeding in another court or jurisdiction – I see no reviewable error in the Learned Prothonotary's consideration. For much the same reasons as reached in respect of abuse of process, the conclusion that the U.S. and Canadian actions are not the same is reasonable.

[34] In the exercise of discretion, it is reasonable to conclude that this Court (which has jurisdiction over the claim) ought not to defer to a foreign court in respect to matters arising in Canada. Google US, by operating in Canada, directly and/or through a subsidiary subjected itself to Canadian law.

[35] With respect to the 2nd branch of the s. 50(1) test, given the Learned Prothonotary's decision not to consider it, the Court ought to *de novo* address that issue by addressing the nine factors listed in *White*, above.

[36] The Court concludes as follows:

1. While there may be inconvenience and extra expense, there is no prejudice or injustice to either party.
2. A stay could well prejudice the Plaintiff by delaying or preventing Canadian based claims.
3. The Defendant had the burden on these two matters which it failed to satisfy.
4. The Court is in a position to properly deal with the stay motion.
5. This is not a clear case where a stay should be granted because of real prejudice.
6. For reasons given earlier and found by the Learned Prothonotary, the two actions are not sufficiently similar.
7. Because of the differences in legal regimes, there is a real possibility of inconsistent findings.
8. The two actions are at different stages.
9. Neither party enjoys a priority of filing date.

[37] As to the issue of *forum non conveniens*, the doctrine is not strictly applicable because neither the U.S. nor Canadian courts can necessarily assume or exercise jurisdiction over the actions in the other country. Justice Lemieux in *Ford Aquitaine Industries SAS v Canmar Pride (The)*, 2005 FC 431, set out the basic tenet of the doctrine that each forum must be able to exercise the necessary jurisdiction.

56 As pointed out by Mr. Justice Sharpe for the Ontario Court of Appeal in *Muscutt et al. v. Courcelles et al.*, [2002] O.J. No. 2128, 60 O.R. (3d) 20, the doctrine of *forum non conveniens* does not speak to the issue whether a forum has jurisdiction or should assume jurisdiction but rather is a discretionary doctrine which recognizes that there may be more than one forum capable of assuming or exercising jurisdiction and may decline to exercise that jurisdiction on the grounds there is a more appropriate forum to entertain (or try) the action. In *Muscutt, supra*, Mr. Justice Sharpe was dealing with a case where Ontario assumed jurisdiction and not either a presence-based jurisdiction or a consent-based jurisdiction.

(Underlining by Court)

[38] Justice Lemieux also endorsed the 10 factors noted in *Spar Aerospace Ltd. v American Mobile Satellite Corp.*, [2002] 4 SCR 205. There is no suggestion that the list is exhaustive but they provide a useful guideline. They are:

1. The parties' residence, that of witnesses and experts;
2. The location of the material evidence;
3. The place where the contract was negotiated and executed;
4. The existence of proceedings pending between the parties in another jurisdiction;
5. The location of Defendant's assets;
6. The applicable law;

7. Advantages conferred upon Plaintiff by its choice of forum, if any;
8. The interest of justice;
9. The interest of the parties; and
10. The need to have the judgment recognized in another jurisdiction.

[39] Applying those factors, I conclude:

1. The issue of residence of Defendants, witnesses and experts favours the U.S. although Google CA is resident in Canada.
2. Location of material evidence would again, on balance, favour the U.S. although evidence of actions in Canada would be highly relevant.
3. The place of contract is not as relevant as the place of infringement. As the infringement on the internet potentially occurs in a number of places, including on the server, on the customers' screen and in the marketing in Canada, the matter is balanced.
4. The existence of proceedings between the parties in the U.S. has been addressed including the differences between the actions.
5. The evidence on the Defendants' assets is limited but the U.S. would appear to dominate both Google US and Google CA. Clearly the assets of significance are in the U.S.
6. The applicable law is a critical matter as Canadian law clearly applies to the Federal Court action. It is this law which the Plaintiff wishes to assert as a central legal basis for its claim.

7. The advantage to the Plaintiff by its choice of this forum is the benefit of Canadian law and its enforcement in Canada – as the choice of the U.S. court accords similar benefits of U.S. law and enforcement in that jurisdiction.
8. As to the interests of justice, there is significant force to the contention that the interests of justice in Canada favour Canadian proceedings. Foreign owners of intellectual property are recognized as having the right to commence actions in Canada for infringements occurring here under Canadian law. The Defendants accepted that possibility in doing business here and ought not to be able to shield themselves from Canadian legal process.
9. The interests of the parties are clearly split.
10. The potential problem of recognition of a foreign judgment is a substantive concern in both countries given the legal regimes, different defences and potential outcomes. The absence of proven foreign law in this instance is not fatal as it is not necessary to know as a fact what the U.S. law may be. The Court can take judicial notice that the laws are neither identical nor applied in the same way – the precise details of those differences are not critical at this juncture.

[40] In my view, weighing all these factors together, I cannot see that the U.S. court is more convenient and appropriate for dealing with rights under Canadian law – even assuming a U.S. court could or would make such a determination. The situation is analogous to other instances of actions based on intellectual property rights proceeding in two or more national courts at the same time. It is not forum shopping to assert Canadian rights in Canadian courts and U.S. rights in U.S. courts.

[41] Therefore, the Defendants have not satisfied me that this Court should exercise its discretion to stay this Federal Court action on the grounds of *non forum conveniens*.

IV. CONCLUSION

[42] I come to the same result as the Learned Prothonotary from a similar perspective and also on the basis of grounds which she did not consider. As such, the order dismissing the Defendants' motion is upheld and this appeal will be dismissed.

[43] While the Plaintiff is entitled to its costs, the parties indicated that they wished to address costs separately. The Plaintiff shall file its costs submissions within twenty-one (21) days of this decision and the Defendants may respond fourteen (14) days thereafter with five (5) days for reply.

JUDGMENT

THIS COURT’S JUDGMENT is that the order dismissing the Defendants’ motion is upheld and this appeal is dismissed.

“Michael L. Phelan”

Judge

FEDERAL COURT
SOLICITORS OF RECORD

DOCKET: T-1591-09

STYLE OF CAUSE: PERFECT 10, INC.

and

GOOGLE, INC. and GOOGLE CANADA
CORPORATION

PLACE OF HEARING: Toronto, Ontario

DATE OF HEARING: December 1, 2010

**REASONS FOR JUDGMENT
AND JUDGMENT:** Phelan J.

DATED: March 21, 2011

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