



T-2702-96

MONTREAL, QUEBEC, THIS 21st DAY OF MARCH 1997

PRESENT: RICHARD MORNEAU, ESQ., PROTHONOTARY

BETWEEN:

LEVI STRAUSS & CO. and
LEVI STRAUSS & CO. (CANADA) INC.

Plaintiffs

AND

THE TIMBERLAND COMPANY (INC.) and
TIMBERLAND FOOTWEAR & CLOTHING INC.

Defendants

ORDER

Paragraphs 23, 24 and 29(d) of the statement of defence and counterclaim are struck out as disclosing no reasonable cause of action (or defence) within the meaning of section 7(a) of the *Trade-marks Act*, subject to the right of the defendants to file and serve an amendment to their statement of defence and counterclaim on or before April 21, 1997, or within such further period as the parties may agree, alleging material facts which would, if proven, establish a cause of action under section 7(a) of the *Trade-marks Act*.

Costs to the plaintiffs.

A handwritten signature in cursive script, reading "Richard Morneau".

Prothonotary



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BETWEEN:

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Plaintiffs

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Defendants

REASONS FOR ORDER

RICHARD MORNEAU, ESQ.,
PROTHONOTARY:

This motion by the plaintiffs brought pursuant to rule 419 of the *Federal Court Rules* is for an order striking out paragraphs 23, 24 and 29(d) of the defendants' statement of defence and counterclaim on the grounds that these paragraphs on their face disclose no reasonable cause of action or defence, are immaterial and redundant, frivolous, vexatious, and may prejudice, embarrass or delay the fair trial of this action.

Both parties are involved in the manufacture and sale of garments. It appears that both parties display their trade marks prominently on all merchandise which they sell by sewing a tab or label along one seam of any garment.

It is in that connection that the plaintiffs allege in their statement of claim that the defendants have infringed the plaintiffs' various registered tab trade marks and that the defendants have passed off their wares as and for those of the plaintiffs. The defendants deny those allegations and counterclaim by seeking a declaration of invalidity of the plaintiffs' trade marks and damages.

The impugned paragraphs read as follows:

23. For many years, the Plaintiffs have adopted and followed the policy in Canada (but not in the United States, the country of origin of the Plaintiff L.S. & Co.) of using legal process or the threat thereof to intimidate or coerce competitors to cease use of tab devices for the purpose of displaying non-confusing trade marks of said competitors, when the Plaintiffs knew or ought to have known that the trade mark registrations upon which they relied in threatening their competitors were not infringed, and were invalid for the reasons set forth hereinabove.
24. In Canada, the Plaintiffs have commenced over twenty actions since 1982 in this Honourable Court, alleging trade mark infringement, passing off, or depreciation of good will in respect of the TAB Design trade marks of the Plaintiff L.S. & Co. To the Defendants' knowledge, not one such case has ever gone to trial, due to the failure of the Plaintiffs to proceed, or due to the Plaintiffs having succeeded in intimidating its competitors to stop using such tab devices, when there was no legal basis for them to do so. The Defendants submit that it is the deliberate policy of the Plaintiffs to wrongfully intimidate or coerce competitors into ceasing use of tab style labels, in order to put them at a competitive disadvantage with the Plaintiffs.
29. The Defendants respectfully request the following relief:
- (...)
- (d) punitive damages in the amount of \$25,000,000.;

At the hearing of the motion at bar, counsel for the defendants brought to everyone's attention some amendments which the defendants intended to bring to their counterclaim, which amendments would serve to further validate the impugned paragraphs. I accepted therefore for the purpose of my analysis to consider the said proposed amendments which read:

27. The Defendants repeat the allegations made in the Statement of Defence. The public and frequent misrepresentation by the Plaintiff of its alleged trade mark rights to prevent others from attaching brand name tabs to clothing, particularly through the acts pleaded in paragraphs 23 and 24, has impaired the Defendant's ability to sell its products bearing an exterior brand name tab in Canada. The Defendant has suffered damage and the Plaintiff has made a profit by reason of these acts.
28. The Defendants plead and rely upon Sections 2, 4, 7(a), 12, 30 and 57 of the *Trade-marks Act*.

RELIEF REQUESTED

- 29.(d) general damages for misrepresentation in an amount to be determined by this Honourable Court and punitive damages in the amount of \$25,000,000; and

Counsel for the plaintiffs indicated that the addition of the proposed amendments did not alter their position on the motion.

As I understand the situation, the impugned paragraphs and the proposed amendments form the basis for the defendants' cause of action under section 7(a) of the *Trade-marks Act*, R.S.C. 1985, c. T-13. Section 7(a) reads:

7. No person shall

(a) make a false or misleading statement tending to discredit the business, wares or services of a competitor;

Stripped of all the redundancies of paragraphs 23, 24 and proposed 27 read together, the gist of the defendants' sole and main allegation is that the plaintiffs have commenced since 1982 over twenty actions in this Court for the sole purpose of intimidating or coercing competitors into ceasing use of tab devices for the purpose of displaying trade marks of said competitors.

This is clearly and obviously an allegation to support a cause of action in abuse of process.

The tort of abuse of process is defined as follows by Henry J. in *Tsiopoulos v. Commercial Union Assurance Co.* (1986), 32 D.L.R. (4th) 614, at 616:

It is well settled that there is at law a tort known as abuse of process. This cause of action arises when the processes of law are used for an ulterior or collateral purpose. It is defined as the misusing of the process of the courts to coerce someone in some way entirely outside the ambit of the legal claim upon which the court is asked to adjudicate. It occurs when the process of the court is used for an improper purpose and where there is a definite act or threat in furtherance of such purpose.

I clearly do not believe that section 7(a) of the *Trade-marks Act*, as it has been interpreted and applied, includes the tort of abuse of process as alleged here by the defendants.

In *S. & S. Industries Inc. v. Rowell*, [1966] 1 S.C.R. 419, at 424 (S. & S.), Martland J., writing for himself and three of his brothers, identified the purpose and effect of section 7(a) of the *Trade-marks Act* as follows:

The combined effect of ss. 7(a) and 52 of the *Trade Marks Act* is to create a statutory cause of action for which damages may be awarded if a person is damaged by false or misleading statements by a competitor tending to discredit the claimant's business, wares or services. The essential elements of such an action are:

1. A false or misleading statement;
2. Tending to discredit the business, wares or services of a competitor; and
3. Resulting damage.

In the case at bar, I am of the view that the commencing of numerous actions by the plaintiffs cannot be considered as amounting to false or misleading statements within the meaning of the first essential element of section 7(a).

In *S. & S.*, Spence J., at p. 429, clearly identifies the commencing of an action as the forthright thing to do for a person seeking to defend his patent. Therefore, hardly any statement of claim can be considered for the purpose of section 7(a) as being or containing false or misleading statements.

In addition, it appears that at common law, statements in pleadings are to be considered privileged and, consequently, even if they turned out at the end of the day to be false, they cannot bring within section 7(a) any defendant to such a claim.

In that regard, Walsh J. in *Diamond Shamrock Corp. v. Hooker Chemicals & Plastics Corp.* (1981), 60 C.P.R. (2d) 166, at 171, expresses himself as follows:

This brings us to the question of privilege and certainly the statements made by plaintiff in paras. 13, 14 and 16 of its action that defendants have infringed its patent are privileged. Defendant attempts to argue that a statutory provision such as s. 7(a) of the *Trade Marks Act* must prevail over any common law rules relating to privilege, contending that s. 7(a) is a matter of public policy as contained in the statute under general application dealing with unfair competition. I do not find that a statement made in good faith in legal proceedings that defendant is infringing plaintiffs' patent is a statement tending to discredit the business wares or services of defendant, even if it should after trial prove to be false, nor that the adding as co-defendant the two companies which have purchased or used the item in question from defendant brings this within s. 7(a) or overcomes the common law rule relating to privileged statements in pleadings.

(See also *Teledata Communications Inc. v. Westburne Industrial Enterprises Ltd.* (1990), 71 O.R. (2d) 466, at 470.)

As to what type of statements could fall within section 7(a) of the *Trade-marks Act*, I am of the view that the cases of *S. & S.*, *supra*, at 431, and *Diamond Shamrock*, *supra*, at 170, stand for the proposition that if in fact statements in the nature of threats to revert to the legal process are made to third persons dealing with or using, directly or through an intermediary, the product of a defendant and if eventually a plaintiff's patent is found invalid as a result of a counterclaim, then this would give rise to a claim for damages by said defendant under section 7(a) of the *Trade-marks Act*.

Threats to revert to the legal process and the commencing *per se* of a legal action are two different things when considering section 7(a) of the *Trade-marks Act*.

Here, impugned paragraph 23 makes reference to the threat of using the legal process. However, similar to the situation faced by the Court in *Diamond Shamrock, supra*, at 171, the reference in paragraph 23 is simply a bald allegation with no mention of any material facts which are essential to found a cause of action under section 7(a) of the *Trade-marks Act*.

Therefore, impugned paragraphs 23 and 24 shall be struck as disclosing no reasonable cause of action (or defence) within the meaning of section 7(a) of the *Trade-marks Act*.

Since paragraph 29(d) of the counterclaim depends on paragraphs 23 and 24, it must also be struck. This is the plain and obvious result to achieve here (*Canada (A.G.) v. Inuit Tapirisat*, [1980] 2 S.C.R. 735, at 740).

As counsel for the defendants at the hearing of the motion briefly alluded to further proposed amendments without putting them in writing for the benefit of the Court and counsel for the plaintiffs, I shall reserve the right of the defendants to file and serve an amendment to their statement of defence and counterclaim on or before April 21, 1997, or within such further period as the parties may agree, alleging material facts which would, if proven, establish a cause of action under section 7(a) of the *Trade-marks Act*.

Costs of this motion should go to the plaintiffs.

Richard Morneau
Prothonotary

Montreal, Quebec
March 21, 1997

Federal Court of Canada

T-2702-96

Court No. _____

BETWEEN

LEVI STRAUSS & CO.

-and-

LEVI STRAUSS & CO. (CANADA) INC.

Plaintiffs

— and —

THE TIMBERLAND COMPANY (INC.)

-and-

**TIMBERLAND FOOTWEAR & CLOTHING
INC.**

Defendants

REASONS FOR ORDER

FEDERAL COURT OF CANADA

NAMES OF COUNSEL AND SOLICITORS OF RECORD

COURT NO.: T-2702-96

STYLE OF CAUSE: LEVI STRAUSS & CO. and
LEVI STRAUSS & CO. (CANADA) INC.

Plaintiffs

AND

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INC.

Defendants

PLACE OF HEARING: Ottawa, Ontario

DATE OF HEARING: March 6, 1997

REASONS FOR ORDER BY: Richard Morneau, Esq.,
Prothonotary

DATE OF REASONS FOR ORDER: March 21, 1997

APPEARANCES:

Brian P. Isaac for the Plaintiffs

Robert McFarlane for the Defendants

SOLICITORS OF RECORD:

Brian P. Isaac/Elliott S. Simcoe for the Plaintiffs
Smart & Biggar
Ottawa, Ontario

Daniel R. Bereskin/Cynthia Rowden for the Defendants
Bereskin & Parr
Toronto, Ontario