



T-1812-96

Ottawa, Ontario, this 27th day of June, 1997.

Before the Honourable Mr. Justice Marc Nadon

BETWEEN:

**ITT HARTFORD LIFE INSURANCE
COMPANY OF CANADA**

**Plaintiff
(Defendant by Counterclaim)**

- and -

**AMERICAN INTERNATIONAL ASSURANCE LIFE
COMPANY LTD.**

**Defendant
(Plaintiff by Counterclaim)**

ORDER

The appeal is allowed in part.

1. Paragraphs 5, 9 and 11 of the proposed amendments to the amended statement of defence and counterclaim are allowed.
2. Segger and Associates Ltd. shall be added as a defendant to the defendant's counterclaim.
3. The main action and the defendant's counterclaim will remain severed.

4. Costs shall be in the cause.

“MARC NADON”
JUDGE



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BETWEEN:

**ITT HARTFORD LIFE INSURANCE
COMPANY OF CANADA**

**Plaintiff
(Defendant by Counterclaim)**

- and -

**AMERICAN INTERNATIONAL ASSURANCE LIFE
COMPANY LTD.**

**Defendant
(Plaintiff by Counterclaim)**

REASONS FOR ORDER

Nadon J.:

The defendant, plaintiff by counterclaim, appeals from two orders rendered on January 6, 1997 by Associate Senior Prothonotary Peter Giles. By the first order, the Senior Prothonotary dismissed the defendant's motion for leave to amend the amended statement of defence and counterclaim and for leave to add Segger and Associates Ltd. ("Segger") as a defendant to the counterclaim. By his second order, the Senior Prothonotary allowed the plaintiff's motion to sever the counterclaim from the action. The Senior Prothonotary ordered that the counterclaim be tried separately, with pleadings to be filed as for a separate action. The Senior Prothonotary did not give any reasons for either of his orders.

The facts relevant to these appeals are as follows. By its statement of claim filed on August 6, 1996 and its amended statement of claim filed on September 10, 1996, the plaintiff claims damages against the defendant and an accounting of profits in respect of an alleged infringement by the defendant of the copyright said to subsist in a literary work entitled "Provider Series 2000 - Rate Book Administration Manual" (the "Provider Manual").

The defendant filed a statement of defence and counterclaim on October 8, 1996 and filed an amended statement of defence and counterclaim on October 15, 1996. By notice of motion dated October 18, 1996, the plaintiff sought to obtain an order striking out paragraphs 5, 6, 7, 16 and 17 of the amended statement of defence and counterclaim. On November 6, 1996 I ordered that paragraphs 5, 6, 16 and 17 be struck. In my reasons for order, I stated that:

In the present instance, I am of the view that paragraphs 5 and 6, as they stand, should be struck. Perhaps the defendant can seek leave to amend its pleading so as to advance material facts relevant to the conclusion which it seeks. For the time being, paragraphs 5 and 6 simply constitute, in effect, denials of the plaintiff's allegations.

In paragraph 6 of its Amended Statement of Defence and Counterclaim, the defendant pleads, if I have correctly understood the pleading, that the plaintiff is not entitled to the presumptions of s. 34(3)(a) and s. 53(2)(a) of the *Copyright Act* because the registration of the plaintiff's work occurred after the activities of which the plaintiff complains.

In support of its position, the defendant referred me to the decision of Denault J. in *Grigon v. Roussel et al.* (1991), 38 C.P.R. (3d) 4 (F.C.T.D.). In that case, Denault J. clearly held that, in his view, the presumption of s. 53(2) did not apply where registration occurred after the alleged infringing work was published.

In the case at bar, the plaintiff's work was registered on July 17, 1996. On the other hand, the defendant's alleged infringing work appears to have been published prior to July 17, 1996. Thus, it cannot be said, in my view, that paragraph 7 of the defendant's Amended Statement of Defence and Counterclaim has no chance of success. Consequently, the paragraph shall not be struck.

I now turn to paragraphs 16 and 17 of the Amended Statement of Defence and Counterclaim, in respect of which the plaintiff submits that there is no basis for the allegations contained in these paragraphs. I agree.

In paragraph 16, the defendant has simply repeated the words of s. 7(a) of the *Copyright Act*. In paragraph 17, the defendant alleges that it relies on the provisions of the *Trade Marks Act*, including s. 7(a) thereof.

I fail to see how paragraphs 10 through 14 of the Amended Statement of Defence and Counterclaim can serve as a basis for the allegations contained in paragraphs 16 and 17. Consequently, paragraphs 16 and 17 shall be struck.

This appeal is before me in part as a result of the defendant's failed attempt to amend its statement of defence and counterclaim and to bring it into line with my earlier reasons.

As I have already indicated the Senior Prothonotary did not give any reasons for his orders. Consequently, I am of the view that this appeal must proceed *de novo*. I agree entirely with the reasons given by Hughes J. in *Richmond v. Canadian National Exhibition Association* (1979) 24 O.R. (2d) 781 (H.C.J.) where he states, at 782:

The learned Master made a decision which, in the normal course, would involve an exercise of his discretion and would, generally speaking, not be reviewable on appeal unless he acted unjudicially and contrary to principle and authority. As I have observed on former occasions where a judicial officer of this Court makes an order without giving reasons in a matter involving the exercise of his discretion he places an appellate Court in a position where it has no access to his determination and so the Court appealed to must of necessity proceed *de novo*.

I begin with the defendant's motion to amend the amended statement of claim and counterclaim. To replace paragraphs 5 and 6 which have been struck, the defendant proposes a new paragraph 5 which would read as follows:

5 With respect to the allegations contained in paragraph 5 of the statement of claim, the defendant states that the alleged literary work is not original but is a common place arrangement of ordinary words and phrases taken from insurance policies

which are within the public domain. In creating the work, the author exercised a negligible degree of skill, judgment or labour in its overall arrangement.

Former paragraphs 5 and 6 read:

5. With respect to the allegations contained in paragraph 5 of the statement of claim, the defendant states that the alleged literary work is not original but is a common place arrangement of ordinary words put together without the exercise of more than negligible skill.

6. Further, or in the alternative, the defendant denies that copyright subsists in the alleged literary work, in that the work in question is not original but is copied from other insurance manuals and policies, the full particulars of which are known to the plaintiff but not known to the defendant.

By my order of November 6, 1996, I struck paragraphs 5 and 6 because the defendant, in denying the originality of the plaintiff's Provider Manual, had not alleged any material facts to support that conclusion.

In deciding as I did, I relied on the judgment of McKay J. in *Glaxo Canada Inc. v. Apotex Inc.*, (1994) 58 C.P.R. (3d) 1. That decision, unbeknownst to me, had been reversed by the Court of Appeal on November 2, 1995, reported at 64 C.P.R. (3d) 191. In light of the Court of Appeal's judgment, it may well be that my decision of November 6, 1996 to strike paragraphs 5 and 6 of the amended statement of defence and counterclaim was wrong. In any event, I am satisfied that in view of the Court of Appeal's judgment, the defendant ought to be allowed to plead the proposed new paragraph 5.

The defendant also wishes to amend paragraphs 9 and 11 (former paragraphs 10 and 12) of its statement of defence and counterclaim. These amendments were not objected to and, in any event, I see no reason why the defendant ought not to be allowed to make these changes to its pleadings.

I now turn to the last amendment which the defendant wishes to make to its amended statement of defence and counterclaim. These proposed amendments result from my order striking out paragraphs 16 and 17 of the amended statement of claim and counterclaim. These paragraphs read as follows:

16. Further, or in the alternative, by reason of its activities set out above, the defendant by counterclaim has made false or misleading statements tending to discredit the business and services of the plaintiff by counterclaim contrary to s. 7(a) of the Trade Marks Act.

17. The plaintiff by counterclaim pleads and relies on the provisions of the Trade Marks Act, including s. 7(a) thereof.

The defendant now proposes to amend its pleadings by new paragraphs 15, 16, 17 and 18 which read as follows:

15. Further, or in the alternative, by reason of the activities set out above, the defendants by counterclaim made false or misleading statements tending to discredit the business and services of the plaintiff by counterclaim contrary to s. 7(a) of the Trade Marks Act.

16. The particulars are as follows:

(a) In or about the month of July, 1996 and at other times not known to the plaintiff by counterclaim but known to the defendants by counterclaim, the defendants by counterclaim caused the Advertisement to be sent to insurance brokers;

(b) The plaintiff by counterclaim and the defendants by counterclaim are in direct competition with one another in the business of selling personal accident insurance;

(c) The Advertisement falsely or misleadingly states that the plaintiff by counterclaim's contract with brokers provides that brokers receive no renewal commissions unless they have produced a minimum of \$10,000 new premiums or an inforce health premium of \$50,000 and that renewals are being given away. The minimums do not apply to renewal commissions and renewals commissions [sic] are not given away.

(d) The Advertisement caused the commission structure offered by ITT Hartford to appear to be more favourable to brokers.

17. The plaintiff by counterclaim has suffered damages as a result of the false or misleading statements contained in the Advertisement as it caused brokers to promote the products of ITT Hartford rather than those of the plaintiff by counterclaim.

18. The plaintiff by counterclaim pleads and relies on the provisions of the *Trade Marks Act*, including s. 7(a) thereof.

By my order of November 6, 1996, I struck paragraphs 16 and 17 because no material facts were alleged in support of the cause of action asserted by the defendant under section 7(a) of the *Trade Marks Act*, which reads as follows:

7. No person shall
(a) make a false or misleading statement tending to discredit the business, wares or services of a competitor;

There has been considerable debate in Canada with respect to the constitutionality of s. 7 of the *Trade Marks Act*. In *MacDonald v. Vapor Canada Ltd.*, [1977] 2 S.C.R. 134, at 141 and 142, Laskin C.J. stated:

Section 7 of the *Trade Marks Act* is the first of five sections of the Act (ss. 7 to 11) that are subsumed under the sub-title "Unfair Competition and Prohibited Marks". It stands alone, however, among those sections in not being concerned with trade marks or trade names. It alone gives any substance to the "Unfair Competition" portion of the sub-title.

At 172 and 173, the Chief Justice added:

The position which I reach in this case is this. 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. The subparagraphs of s. 7, if limited in this way, would be sustainable, and, certainly, if s. 7(e) whose validity is alone in question here, could be so limited, I would be prepared to uphold it to that extent. I am of opinion, however, (and here I

draw upon the exposition of s. 7(e) in the *Eldon Industries* case), that there is no subject matter left for s. 7(e) in relation to patents, copyright, trade marks and trade names when once these heads of legislative power are given an effect under the preceding subparagraphs of s. 7. In any event, in the present case the facts do not bring into issue any question of patent, copyright or trade mark infringement or any tortious dealing with such matters or with trade names. There is here merely an alleged breach of contract by a former employee, a breach of confidence and a misappropriation of confidential information. It is outside of federal competence to make this the subject of statutory cause of action.

A number of decisions of this Court have also dealt with the constitutionality of section 7 of the *Trade Marks Act*, namely *Riello Canada Inc. v. Lambert*, (1986) 8 C.I.P.R. 286 (F.C.T.D.), *Asbjorn Horgard A/S v. Gibbs/Nortac Industries Ltd.* (1987), 14 C.P.R. (3d) 314 (F.C.A.) and *Motel Six v. Six Motel Inc.* (1981), 56 C.P.R. (2d) 44. As one author writes, “[t]o the extent section 7 is joined to patent, trade marks or copyright matters, it would appear that the Federal Court of Canada will accept its validity”.¹ The same author goes on to state that:

Section 7(a) addresses false or misleading statements that injure a competitor’s business. It is not necessary that there be *mala fides* or lack of reasonable belief on the part of the defendant. A plaintiff must establish loss in order to be compensated in damages but, once an infringement of the right in section 7(a) is established, an injunction should be available in any event. A typical section 7(a) proceeding involved a defendant’s statements to a plaintiff’s customer that the plaintiff’s products infringe the defendant’s patent, the patent subsequently being determined to be invalid. In such situations, the false representation as to patent infringement is actionable under section 7(a). It should not be forgotten that the constitutional validity of section 7(a) remains in doubt. (pp. 8-9 and 8-10, § 8-D)

In my view, the proposed new paragraphs 15 through 18 do not disclose a reasonable cause of action. The allegations of fact which appear in proposed new paragraphs 15 through 18 of the amended statement of claim and counterclaim cannot be linked to “patents, trade marks or copyright matters”.

¹ M. Chromecek *et al.*, *World Intellectual Property Guidebook* (Matthew Bender & Co., Inc., 1991), p. 8-8, § 8D.

Thus, even if the allegations were taken as proven, they do not provide material facts sufficient to support a cause of action under section 7(a) of the *Trade Marks Act*. As a result, these amendments shall not be allowed.

The Senior Prothonotary also denied the defendant leave to add Segger as a defendant to the counterclaim. I was advised by counsel for the defendant that, at the hearing before the Senior Prothonotary, counsel for the plaintiff took no position with respect to this issue. The Senior Prothonotary denied the defendant's motion. In my view, Segger appear to be a proper defendant to the defendant's counterclaim.

In its reply and defence to the counterclaim, the plaintiff has denied any involvement with the advertisement which is the subject matter of the defendant's counterclaim. The advertisement in question appears to have originated from Segger. In these circumstances, I cannot see why Segger should not be added as a defendant to the counterclaim.

I now turn to the Senior Prothonotary's decision which allowed the plaintiff's motion to sever the main action from the counterclaim. I agree with the Senior Prothonotary that the main action should be severed from the counterclaim.

The main action and the counterclaim raise different causes of action. In its action, the plaintiff alleges that the defendant has infringed its copyright in the Provider Manual. However, by its counterclaim, the defendant alleges that the plaintiff, by its advertisement, has made false and misleading statements contrary to section 22 of the *Competition Act*. These are entirely separate causes of action and the evidence which will be adduced in regard thereto will necessarily be of a different nature.

I am therefore of the view that the Senior Prothonotary's decision on this issue must stand.

Costs shall be in the cause.

"MARC NADON"
JUDGE

Ottawa, Ontario
June 27, 1997