The federal and provincial courts have recently broken new ground in a string of decisions that set new precedents in Canadian jurisprudence. The rulings variously take a tougher line against counterfeiters, establish a framework for product liability class actions, and champion the respective rights of franchisees and employees — although perhaps not as staunchly as might have been expected.

Piracy is a perennial scourge for brand owners — not least due to on-going shortcomings in the domestic IP regime — but a recent Federal Court decision should give them some cause for comfort. Software giants Adobe Systems, Microsoft and Rosetta Stone filed suit against Toronto resident Dale Thompson for selling knock-off copies of their ubiquitous programs through his website. Although the evidence was stacked against him, Thompson bullishly denied any wrongdoing. In his statement of defence, he revealed that his actions were part of a wider campaign that aimed to prove that the plaintiffs were “participants to a ‘network effect’ — an economic practice by which the Plaintiffs establish market dominance and maximize their profits, while also allowing and tolerating copyright infringement and piracy. Thompson said copyright infringement and piracy actually lead to financial gains for the Plaintiffs, which is why they fail to install protective measures in their software.”

Thompson’s sophistry cut no ice with the Federal Court, which condemned the “misguided sense of entitlement” that pervaded his defence. It concluded that his “infringing conduct, and his response to being held accountable for this conduct, is particularly egregious and requires a clear deterrent message.” Thompson was hit with maximum statutory damages, punitive damages and costs, as well as damages for the unauthorised display of the cover art for the plaintiffs’ software on his website. The ruling is a first, as previously maximum statutory damages were reserved for repeat offenders. (Ref 26156)

Another landmark in Canadian case law was recently set when Ontario’s Superior Court of Justice handed down the country’s first-ever decision in a product liability class action. The case arose from a product recall initiated in 2000 by medical-device manufacturer St. Jude, after it discovered that certain heart valves with a special metallic silver coating presented a minor, but statistically significant, risk of complications. In 2001, a class action was launched on the grounds that the design of the valve was negligent, and that St Jude had rushed the device to market and had not recalled it with sufficient haste upon learning of the problems. The class action was certified in 2003, and the trial involved 140 days of court hearings and some 40 witnesses, 23 of those experts.

The court’s 206-page decision, which was finally released in June 2012, is the first to address key issues that arise in product liability class actions, such as a manufacturer’s duty of care and duty to warn, general causation and the existence of a material risk. It relied heavily on the expert testimony and included in-depth analysis of the comparative merit of different types of medical and epidemiological data. Ultimately, the court found that St. Jude had taken reasonable care in designing the device and bringing it to market, and in its subsequent response to the problems and eventual recall of the device. It further held that the plaintiffs had failed to prove that the metallic coating on the valves interfered with healing, degraded heart tissue or materially increased the risk of adverse health effects, as claimed. As the first of its kind, the ruling sets a benchmark for such cases and will doubtless influence how such actions are framed and fought in future. (Ref 25747)

Canadian Case Law Round-up

By Carolyn Boyle (cboyle@internationallawoffice.com), ILO
In another milestone ruling issued in a group action, the Quebec Superior Court has spelled out the drastic consequences facing franchisors that fail to safeguard their crown-jewel assets: their brands. The case was brought by 21 franchisees of coffee-and-doughnuts chain Dunkin' Donuts, whose businesses were crippled when a rival doughnut outfit launched an aggressive assault on the Quebec market. The franchisees alleged that Dunkin’ Donuts did nothing to shore up the franchise against such fierce encroachment, allowing its rival to capture the lion’s share of the market and resulting in the closure of close to 80 percent of its outlets over a 10-year period. The disgruntled franchisees filed suit against Dunkin’ Donuts, seeking termination of the franchise agreements and compensation for damages. For its part, the franchisor laid the blame squarely at the Plaintiffs’ door, claiming that they had not worked hard enough to make their businesses a success, and that customers had been deterred by their “tireworn” premises.

In reaching its decision, the court focused on a contractual obligation in the franchise agreement, which stated that the franchisor would “protect and enhance the reputation of Dunkin’ Donuts and the demand for the products of the Dunkin’ Donuts system.” In the court’s view, the franchisor had breached this undertaking by failing to take action when its dominance was challenged, and had made a “huge and costly error” by allowing the rival chain to usurp its position on the market. It dismissed Dunkin’ Donuts’ criticisms of the franchisees’ performance and outlets as “utterly devoid of substance.” The collapse of the brand in the face of intensified competition was the fault of the franchisor alone, it found. The court stressed that it is “an underlying assumption of all franchise agreements ... [that the] brand will support a viable commerce,” and that “franchisors are bound by an obligation of good faith and of loyalty towards their franchisees such that they are duty bound to work in concert with them.”

The facts of the case were both specific and extreme, given the global clout of the Dunkin’ Donuts’ brand and its spectacular fall from grace in Quebec. That notwithstanding, franchisors should nonetheless take heed and avoid complacency in the franchise relationship, partner effectively with franchisees to adapt to changing market forces and respond swiftly to any sudden shifts in the competitive landscape. (Ref 26021)

Another decision that has had a more muted impact than some had initially anticipated is the Supreme Court of Canada’s eagerly awaited ruling in R v Cole, a criminal suit involving an Ontario high-school teacher. After a school technician discovered naked photographs of a student in a hidden folder on Cole’s work-issued laptop in the course of routine maintenance, the laptop was passed over first to the school principal and then on to the police, who reviewed its contents without first obtaining a warrant. Cole maintained that this procedural breach violated his right to be free from unreasonable search and seizure, as enshrined in the Canadian Charter of Rights and Freedoms.

Employers watched nervously as the case wound its way to the Supreme Court, fearful that the decision could create new law on privacy in the workplace. However, their concerns ultimately proved unfounded. The Supreme Court concluded that Cole’s rights under the charter had indeed been breached (although it allowed the evidence to be admitted notwithstanding, on the grounds that it was “highly reliable and probative” and unlikely to undermine the administration of justice. Crucially, however, it emphasised that while employees have a reasonable expectation of privacy in personal information stored on work-issued computers, this right protects them from unwarranted interference by the state and its agents. Employers were thus granted a stay of reprieve: “The court specifically stated that it would leave for another day ‘the finer points’ of an employer’s right to monitor computers and devices issued to employees.” (Ref 26130) CB

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