CITATION: Mars Canada Inc. v. Bemco Cash & Carry Inc., 2016 ONSC 7201
COURT FILE NO.: CV-10-406342
DATE: 20161118

ONTARIO

SUPERIOR COURT OF JUSTICE

BETWEEN:	)	
MARS CANADA INC.	)	*Jim Holloway, Essien Udokang, and Andrew Chien*, for the Plaintiff
Plaintiff	)	
– and –	)	
BEMCO CASH & CARRY INC., GPAE TRADING CORP., and AIZIC EBERT	)	*Patrick Summers*, for the Defendants
Defendants	)	
	)	**HEARD:** November 14 and 15, 2016

REASONS FOR JUDGMENT

F.L. MYERS J.

The Motion

[1] The plaintiff moves for summary judgment for rectification of the written form of a settlement agreement entered into in March, 2006 between the plaintiff and the defendant Bemco. It also seeks a declaration of liability of Bemco under the rectified agreement and a declaration of liability of the other defendants for breach of a second settlement agreement with them.

[2] For the reasons that follow, the plaintiff is entitled to summary judgment finding the defendant Bemco Cash & Carry Inc. in breach of its settlement agreement with the plaintiff and the defendants GPAE and Ebert in breach of their settlement agreement with the plaintiff. The specific terms of the legal findings and remaining issues are set out at the end of these reasons.

The Parties

[3] The plaintiff is an Ontario corporation that makes and sells consumer and pet food products in association with registered trade-marks including: MARS, M&Ms, BOUNTY, MILKY WAY, SNICKERS, TWIX, UNCLE BEN’S, PEDIGREE, and others. It is a wholly-owned, indirect subsidiary and the Canadian arm of the well-known global business operated by its ultimate US parent Mars, Incorporated.

[4] Both corporate defendants are closely held, private corporations that are owned or controlled by the defendant Aizic Ebert. Mr. Ebert is the operating mind of the businesses and has the unilateral ability to direct the actions of both of his small companies.

The Defendants’ Grey Marketing in 2006

[5] After coming to Canada almost 20 years ago, Mr. Ebert bought the assets of an existing business known as Bemco Confectionery & Sales Ltd. Mr. Ebert purchased the assets through a new company, the defendant Bemco Cash & Carry Inc. Mr. Ebert does not own the vendor corporation Bemco Confectionery & Sales Ltd. He agrees that he has no entitlement to act for or to bind that corporation.

[6] Just over 10 years ago, the plaintiff learned that Mr. Ebert’s business was selling confectionery products bearing the plaintiff’s registered trade-marks in Toronto. On investigation, the plaintiff discovered that Mr. Ebert’s business was purchasing genuine, legitimate MARS branded products in the United States and importing them for sale in Canada. Mr. Ebert was able to buy products sold by or under Mars, Incorporated in the United States, bring them here, and sell them at a price below the retail price offered by the plaintiff’s distributors.

[7] Buying genuine branded products abroad and selling them in competition with a local distributor of the foreign vendor (and/or its parent company or group of companies) is referred to as grey marketing. There is nothing inherently wrong with grey marketing. Oversimplifying, the basic principle is that if a purchaser buys product legally in a foreign country, the foreign vendor has been paid appropriately for its products and has no further rights to control the re-sale of its goods. Moreover, the sale of the legitimate foreign purchased goods in Canada cannot be claimed to amount to unlawful passing off. Even if the products would appear to consumers to be products sold by the Canadian affiliate of the foreign vendor, since they are legitimate branded products, the Canadian purchaser makes no misrepresentation to consumers as to the source of the goods when it re-sells them here.

[8] In addition to rights under the common law tort of passing off however, Canadian businesses can also obtain protection of their intellectual property through trade-mark registration. The law is unsettled as to whether a Canadian trade-mark holder can prevent third parties from selling products bearing the Canadian company’s trade-marks which are legitimate goods sourced from a foreign parent or affiliate of the Canadian trademark holder. In *Smith &*

Nephew, Inc. v. Glen Oak Inc., 1996 CarswellNat 2588 (F.C.A.), the Federal Court of Appeal held that the Canadian *licensee* of a foreign owner of Canadian trade-marks could not rely upon its *licensed* trade-mark rights to prevent the sale of goods purchased legitimately from the foreign *owner* of the plaintiff's licensed trade-marks. However, the Federal Court of Appeal expressly distinguished and made no decision concerning the situation where the Canadian plaintiff is not just a licensee of a foreign trade-mark owner/vendor but, as is the case here, actually owns the Canadian trade-marks in its own right. At paragraph 15 of the decision, Hugessen J.A. wrote:

> Before leaving this aspect of the case, I wish to emphasize the importance of the fact that the respondents only rights are as licensee and not as owner of the trade marks in question. Decisions in such cases as *Remington Rand Ltd. v. Transworld Metal Co*. and *H.J. Heinz Co. of Canada v. Edan Foods Sales Inc*., while perhaps open to question, turned on the fact that the Canadian subsidiaries of the multi-nationals concerned with the registered owners in Canada of the various trademarks. That fact gives rise to different considerations and different problems. The question as to whether a Canadian subsidiary of a multi-national can sufficiently distance itself from its parent, so as to assert rights in a Canadian trade mark owned by the subsidiary against persons importing similarly marked goods originating with the parent offshore is a difficult one which we do not have to answer here. [Notes omitted.]

[9] In the case at bar, the plaintiff is the registered owner of Canadian trade-marks and seeks to enforce its own rights. The defendants note that the plaintiff obtained the Canadian rights by way of assignment from its US parent some time ago. They argue that the plaintiff cannot sufficiently distance itself from its parent company so as to be entitled to enforce its own trade-mark rights. That is the very question left open by the Federal Court of Appeal.

[10] The parties argued at some length about the current state of the law concerning grey marketing in Canada and whether, in particular, a Canadian trade-mark holder is entitled to enforce its trade-marks to prevent sales in Canada by third parties of genuine product purchased from the trade-mark holder's foreign parent company. I have not found it necessary to resolve that issue as part of the resolution of the motion before the court.

The Parties settled in 2006

[11] When the plaintiff discovered that Mr. Ebert's business was engaging in grey marketing a decade ago, the plaintiff sued in Federal Court. First, it mistakenly sued Bemco Confectionery & Sales Ltd., which, as noted above, sold its assets to Mr. Ebert's business Bemco Cash & Carry Inc. On learning that it had sued the wrong Bemco, the plaintiff discontinued its first lawsuit and commenced a second claim against Bemco Cash & Carry Inc. in the Federal Court.

[12] In the lawsuit, the defendant Bemco Cash & Carry Inc. had every right to advance the defence that the plaintiff's trade-marks cannot be used to prevent grey marketing and to try to

extend the Federal Court of Appeal's decision in *Smith & Nephew Inc*. so as to bind the plaintiff as a Canadian trade-mark owner.

[13] Bemco Cash & Carry Inc. was represented in its litigation by sophisticated lawyers who specialized in intellectual property law. Rather than defending the case, Bemco Cash & Carry Inc. decided to settle. In order to avoid paying damages, or for other good reasons of its own, it capitulated to the plaintiff's demand that it cease grey marketing goods that bear the plaintiff's trade-marks.

Rectification of the Settlement Agreement

[14] Minutes of settlement were entered into. The front page of the minutes of settlement bear the title of proceeding in the Federal Court matter. However, the defendant is referred to as "Bemco Confectionary Sales" rather than Bemco Cash & Carry Inc. The same error is made in the signature line on the last page of the agreement. It is this error that leads the plaintiff to seek rectification of the agreement to properly reflect the correct name of the defendant Bemco Cash & Carry Inc.

[15] In the settlement agreement, the party identified as the "defendant" acknowledged that the plaintiff is the registered owner of the trade-marks under which it claimed. It agreed to confirm in writing that it no longer had possession, power, or control over any foreign product (as defined in the agreement) and to provide the plaintiff with information concerning the source of all foreign products that it sold in Canada. Paragraph 4 of the settlement agreement provides:

> After April 1, 2006, Bemco will not itself, directly or indirectly, or through any company owned or controlled by Bemco, import any Foreign Product into Canada, or advertise, market, offer for sale, distribute or sell any such imported Foreign Product in Canada, except that the plaintiffs' prior written consent or after first obtaining a declaratory judgment from the Ontario Superior Court of Justice authorizing or permitting such activities, which judgment shall be sought on notice to the plaintiffs in proceedings naming them as defendants or respondents, as may be applicable.

[16] The settlement agreement also provides that the plaintiff will consider in good faith any subsequent request by Bemco to become enrolled as a vendor of its products in accordance with the plaintiff's terms and conditions in place for similarly situated distributors.

[17] It is perfectly clear that the settlement agreement was intended by both parties to be an agreement among and bind the plaintiff, its parent, and Bemco Cash & Carry Inc. The name written in the title of proceedings on the settlement agreement "Bemco Confectionary Sales" is a form of the name of the vendor who sold its business to Bemco Cash & Carry Inc. that was erroneously sued initially by the plaintiff. The court file number shown on the front page of the settlement agreement is the court file number of the claim between the plaintiff and Bemco Cash & Carry Inc. The contemporaneous correspondence between counsel leaves no doubt that the settlement discussions were between the plaintiff and Bemco Cash & Carry Inc. In fact, it was

Bemco Cash & Carry Inc. that obtained the order of the Federal Court dismissing the action to implement the settlement. In doing so, it represented to the court that it had settled the claim and made no mention whatsoever of another entity. Bemco's counsel wrote on April 11, 2006 that the "parties" have a binding agreement. Furthermore, when the settlement was implemented, Bemco Cash & Carry Inc. provided to the plaintiff documentation confirming that it no longer had any foreign products and documents identifying the source of the foreign goods that it had purchased. That is, Bemco Cash & Carry Inc. acted as if the settlement agreement was binding upon it. It is only in this litigation, a decade later, that Bemco Cash & Carry Inc. argues that it is not bound by the settlement agreement because the agreement shows the name of Bemco Confectionary Sales.

[18] Upon examination for discovery and subsequent cross-examination on this motion, Mr. Ebert did not claim that he or Bemco Cash & Carry Inc. intended that the settlement be between the plaintiff and another company. In fact, he conceded that it was his intention that the agreement evidenced a settlement of the litigation with Bemco Cash & Carry Inc. At its highest, Mr. Ebert's evidence is that he has no recollection of whether he intended, or even noticed, that the agreement, as drafted, named the wrong entity. Recall as well that Mr. Ebert conceded that he had neither authority over nor the ability to bind his vendor Bemco Confectionary & Sales Ltd.

[19] During the hearing and the motion, Mr. Summers declined the opportunity to have Mr. Ebert attend and be cross-examined in open court. In light of his sworn testimony concerning his lack of memory, his evidence in open court could not get any better without exposing a significant credibility issue.

[20] There are extensive materials before the court on this motion. Each side produced motion records consisting of three thick volumes of material. In addition, there is a thick supplementary record and a thick confidential record. A number of cross-examinations and examinations of third-party witnesses under rule 39.03 have been held. The transcripts are before the court. Motions for production of additional documents were brought. Accordingly, there is a very full factual record before the court. With one exception discussed below, I am satisfied that there is no further evidence on the merits that is likely to be adduced at the trial.

[21] On the issue of rectification, I am satisfied that it is in the interests of justice to resolve the matter summarily. Applying the facts to the law on this motion will yield an efficient and proportional result, with no lack of procedural or substantive fairness.

[22] Rectification is a discretionary, equitable remedy under which a court will correct a document that contains an error and thereby fails to reflect the mutual intentions of the parties. I do not need to make any adverse credibility finding as there is no evidence that Mr. Ebert or Bemco Cash & Carry Inc. had an intention other than to enter into the agreement to settle the litigation. The contemporaneous evidence is comprehensive and clear. Mr. Ebert and Bemco Cash & Carry Inc. intended to settle the litigation, did settle the litigation, and acted upon the settlement of the litigation under the terms of the written agreement. The intention of both sides

was that Bemco Cash & Carry Inc., the defendant in the litigation, was the party to the settlement agreement. Mr. Ebert's lack of recollection offers no positive evidence to the contrary. Accordingly, there is no genuine issue requiring a trial on the issue of rectification.

[23] The court therefore declares that the minutes of settlement that is exhibit "E" to the affidavit of Sally Anne Hinton sworn February 22, 2012 is rectified to replace the defendant shown in the title of proceedings and in the signature block as "Bemco Confectionery Sales" with the actual defendant "Bemco Cash & Carry Inc." as intended by both parties. This is a finding of law under Rule 20.04(4) *Rules of Civil Procedure*, R.R.O. 1990, Reg. 194. It should be contained in the formal order. *Skunk v. Ketash*, 2016 ONCA 841 (CanLII),

GPAE and Mr. Ebert Settle with the Plaintiff

[24] Upon implementing the settlement agreement, Bemco Cash & Carry Inc. disclosed to the plaintiff that its source of foreign goods was the defendant GPAE Trading Corp. That is, Mr. Ebert's company was not just the retailer but was also the wholesaler who purchased the grey market goods abroad and brought them into Canada.

[25] Not surprisingly, the plaintiff demanded that GPAE also cease its grey market activities. Once again, rather than having the issue of the entitlement of a trade-mark owner to prevent grey marketing of products purchased from its foreign parent resolved in Federal Court, Mr. Ebert determined to capitulate to the plaintiff. GPAE entered into an agreement that provides, among other things:

> After August 1, 2006, GPAE will not, directly or indirectly, import any Foreign Product into Canada, or advertise market, distribute, offer for sale or sell any Foreign Product in Canada, except with [the plaintiffs] prior written consent. This undertaking will be binding upon GPAE as well as its related and affiliated companies, and its and their shareholders, officers, directors, employees and agents.

[26] The agreement was signed by Mr. Ebert on behalf of GPAE. In the statement of defence, the defendants denied that this agreement was finalized or that an executed version was delivered to GPAE. By letter dated October 18, 2016, counsel for the plaintiff sent a signed copy of the agreement to Mr. Ebert personally. As a fallback, Mr. Ebert and GPAE deny receiving independent legal advice prior to signing the agreement. However, the agreement recites that each party "solicited and received independent legal advice in connection with the settlement of this matter." In any event, a lack of legal advice is not in itself a defence to the enforcement of a contract. It may be evidence supporting a recognized defence, such as unconscionability. However the parties were sophisticated businesspeople who were well able to represent themselves and negotiate on a commercial basis. Mr. Ebert retained top-flight legal counsel on behalf of Bemco Cash & Carry Inc. He contractually committed to having consulted counsel. Whether he actually did or did not do so is a matter of his own choosing and risk.

[27] Unlike Bemco's settlement agreement, the GPAE settlement does not require GPAE to obtain a declaration from the court before asserting that it is entitled to sell grey market goods again. It also purports to bind to the agreement GPAE's affiliates, shareholders, directors, officers, employees, and agents. The ability and entitlement of a corporation to bind third parties to a contract without their formal assent is an interesting question. However, here the one party who certainly assented to the agreement was the person who signed it on behalf of GPAE, Mr. Ebert. He knew that the agreement included his personal covenant as shareholder and he signed the agreement on behalf of GPAE. It was not suggested in argument that the agreement required the formality of a second signature by Mr. Ebert in order to bind him personally. His oral or implied consent is sufficient to bind him to the contract with the plaintiff.

[28] For the purposes of this litigation, GPAE admits that it has once again imported the plaintiff's branded chocolate bars from the United States. Subject to the issue of restraint of trade dealt with below, GPAE and Mr. Ebert are therefore plainly and admittedly violating their settlement agreement.

The Resumed Grey Marketing also Violated Bemco's Settlement Agreement

[29] Bemco claims that it has not carried on business since 2008. Rather, by agreement dated June 24, 2008, it licensed its business to an independent company called Edward Dworkin Distributors Limited. Dworkin now runs the business and purchases the grey market goods from GPAE. Moreover, Mr. Ebert says that he advised Dworkin of the settlement agreements with the plaintiff and told it that it should not grey market the plaintiff's goods.

[30] Under the terms of the agreement between Bemco and Dworkin, Bemco licensed its entire business to Dworkin for 99 years. Dworkin was required to create a new division of its business through which the licensed business would operate. Dworkin was required to provide premises for the business to operate. In return, Dworkin agreed pay Bemco 50% of its profits from the business. The agreement described the parties as "partners" although that word was removed by an amendment after this litigation commenced.

[31] Mr. Ebert argues that Bemco does not carry on business. Its receipt of 50% of Dworkin's profits is merely the ongoing payment of the initial purchase price for Bemco's business. While an interesting legal characterization of the facts, this argument does not conform to the facts that are uncontested on this point. Bemco is not passive at all. Under the terms of the license agreement, Mr. Ebert is required to continue to be involved in the sourcing of goods for Dworkin. He is provided with an office at the business premises. He admits that he is responsible for purchasing the foreign goods for the business on an ongoing basis. He is not paid a salary for his work for Dworkin. Rather, GPAE makes a 10% mark-up on its sales to Dworkin and then Bemco receives 50% of the net profits. Mr. Ebert was onsite and assisted in making sales of grey market goods bearing the plaintiff's trade-marks to a private investigator hired by the plaintiff. The price list provided to customers at the store displays the names of both Bemco and Dworkin. The license agreement requires the ongoing involvement of Mr. Ebert in "sourcing goods" and "directly or indirectly by instructing a purchasing agent on how to buy and

when to buy the goods." This requirement is acknowledged in the license agreement to be a "key term of this License Agreement." Moreover, it makes Mr. Evert's advice to Dworkin that it should not sell the plaintiff's branded goods hollow. Although Dworkin has the final say, it is Mr. Ebert who is in charge of buying and who actually buys or directs the buying of the goods in accordance with Bemco's license agreement with Dworkin.

[32] Whether the precise legal relationship between Bemco and Dworkin is a partnership is not the point. It probably is a partnership as the two businesses have joined together to operate in common with a view to sharing profits. Regardless, Bemco agreed in its settlement agreement that it would not "directly or indirectly…import any Foreign Product into Canada, or advertise, market, offer for sale, distribute or sell any such imported Foreign Product in Canada" without the plaintiff's consent or an order of this court declaring that it was entitled to do those things. On the uncontested facts, despite Mr. Ebert's attempted legal characterization of the facts, Bemco is doing and being paid to do the things it said it would not do. It is therefore in breach of its settlement agreement too.

The Two Settlement Agreements are not Void Restraints on Trade

[33] The defendants' principal argument is that their agreements to refrain from purchasing the plaintiff's branded products from the plaintiff's affiliates abroad are not a valid contract. Contracts that limit a person's freedom to trade are presumptively void at common law unless they meet a four part test.

[34] In *Tank Lining Corp. v. Dunlop Industrial Ltd*., 1982 CanLII 2023 (ON CA), Blair J.A. described the legal test as follows:

> Firstly, is the covenant under review in restraint of trade? … Secondly, is the restraint one which is against public policy and, therefore, void? Not every restraint of trade is void. The limited exceptions usually involve a restraint coupled with mortgages or leases of real property as in this Court's decision in *Stephens v. Gulf Oil Canada Ltd. et al*. (1975), 1975 CanLII 711 (ON CA), 11 O.R. (2d) 129, 65 D.L.R. (3d) 193, 25 C.P.R. (2d) 64; see also *Cheshire and Fifoot's Law of Contract*, 9th ed. (1976), p. 374. The restraint in this case does not fall within any of the recognized exceptions and is, therefore, *prima facie* void. Thirdly, can the restraint be justified as reasonable in the interests of the parties? Fourthly, can it also be justified as reasonable with reference to the interests of the public?

[35] Although the plaintiff argues that the covenants are not in restraint of trade at all because the defendants could have purchased the plaintiff's products lawfully in Canada through the plaintiff, I am prepared to assume for the purposes of this motion, that the agreements by the defendants to limit their future freedom do indeed engage the doctrine of restraint of trade. As noted previously, grey marketing is not necessarily unlawful and there are arguments that it is generally pro-competitive as I will deal with below.

[36] The restraints on trade here are supported by three different grounds which speak to all four questions in Tank Lining.

(i) The Agreements are Settlement Agreements

[37] First and foremost, the restraints were agreed upon to settle litigation – existing and threatened. Settlement agreements to resolve litigation are strongly favoured and supported by the law. In *Tank Lining*, the Court of Appeal noted that even in assessing a business agreement that is not a settlement of litigation, the courts will be wary to second-guess the parties to allow one to escape a bargain that he freely undertook:

> When two competently advised parties with equal bargaining power enter into a business agreement, it is only in exceptional cases that the courts are justified in over-ruling their own judgment of what is reasonable in their respective interests as Lord Haldane stated in *North Western Salt Co. Ltd. v. Electrolytic Alkali Co. Ltd*., [1914] A.C. 461 at 471:
>
>> ... when the question is one of the validity of a commercial agreement for regulating their trade relations, entered into between two firms or companies, the law ... looks carefully to the interest of the public, but it regards the parties as the best judges of what is reasonable as between themselves.
>
> <u>The courts also have always looked askance at parties who seek to escape the burden of contracts into which they have freely entered. Both practicality and morality require that solemn obligations be upheld and that parties be discouraged from repudiating them.</u> This view is expressed by Lord Pearce in the Esso case, supra, at p. 323 where he said:
>
>> It is important that the court, in weighing the question of reasonableness, should give full weight to commercial practices and to the generality of contracts made freely by parties bargaining on equal terms. <u>Undue interference, though imposed on the ground of promoting freedom of trade, may in the result hamper and restrict the honest trader and, on a wider view, injure trade more than it helps it ... And it may enable a less honest man to keep the fruits of a bargain from which he afterwards resiles ... Where there are no circumstances of oppression, the court should tread warily in substituting its own views for those of current commerce generally and the contracting parties in particular</u>. [Emphasis added.]

[38] This principle applies with even more force when considering a settlement agreement. *Audience Communication Inc. v Sguassero*, 2008 CarswellOnt 2271, aff'd 2010 ONCA 510. It is especially important to enforce litigation settlements so as to ensure that a party cannot just use the agreement as a cover to continue its misdeeds while just deferring litigation to a time more to its liking. At the same time, the court can have even greater confidence in the wisdom of business people who enter into contracts to settle litigation because they do so with a clear understanding of the other party's concerns and with every opportunity and motivation to obtain proper legal advice as to their rights and obligations. When the parties enter into an agreement at

the outset of a relationship they may foresee risks but assign them a low priority or take a wait and see attitude toward them. But once litigation has broken out, the parties are keenly focused on the issues between them, obtain professional counsel, learn with clarity their rights and obligations, and then readjust the relationship to their liking in a final settlement agreement. The fact that the defendants chose not to litigate their grey market rights but to enter into solemn covenants to cease the practice weighs heavily in favour of the validity of their agreements.

[39] In *Apple Corps Ltd and another v Apple Computer Inc. and others*, [1991] 3 CMLR 49 (CA), the Court of Appeal of England and Wales dealt with a settlement agreement in which parties agreed to resolve the manner in which their competing trade-marks would interact in multiple countries. A further dispute arose in which one of the parties sought to avoid the settlement on the ground that it was void in restraint of trade. Taylor L.J. wrote:

> First, this was a settlement agreement. It was made on the footing that each party had some legitimate interest in its trademarks and logos which it wished to protect. The agreement was drawn up, specifically so as to avoid challenges and contests in a host of countries… If one party to such an agreement, dissatisfied with his bargain, can by challenging its enforceability require the court to explore and adjudicate upon the validity and strength of the other's rights, country by country, then such an agreement would totally failed to achieve its object of avoiding disputes and litigation. A settlement agreement would settle nothing. It would merely set the stage for the very lengthy and expensive litigation sought to be avoided.

[40] It seems to me that this principle applies directly in the case at bar. By settling, the defendants agreed, for consideration, that the applicants had registered trade-marks and that they would not import foreign goods bearing those marks. By raising the issue of restraint of trade in this case, they seek to unwind the very settlement to which they agreed and cause the grey marketing issue that they agreed to settle to be litigated. The fact that the agreement is a settlement agreement weighs heavily against it being seen to be *prima facie* void or at all contrary to public policy under the second and fourth questions in *Tank Lining*. I need not go so far as to hold the defendants completely estopped from raising the restraint of trade issue. At minimum however, the settlement context informs the answers to the questions posed in *Tank Lining* set out above.

(ii) The Plaintiff has a Statutory Right to Enforce its Registered Trade-marks

[41] The second ground on which the agreement cannot be said to be *prima facie* void is that it involves the enforcement of registered trade-marks. Under section 19 of the *Trade-marks Act*, R.S.C. 1985, c. T-13, the registration of a trademark provides the owner with the exclusive right to use the trade-mark throughout Canada unless or until the registration is shown to be invalid. This court has no jurisdiction to invalidate a registered trade-mark. Only the Federal Court of Canada has that jurisdiction. Moreover, subsection 79 (5) of the *Competition Act*, R.S.C. 1985, c. C-34, expressly provides that the enforcement of a right under the *Trade-marks Act* or any

other Act of Parliament pertaining to intellectual or industrial property is not an anti-competitive act for the purpose of the monopoly provisions of the statute.

[42] The plaintiff has an obvious interest in the enforcement of its intellectual property rights which, as noted above, remain valid unless or until declared otherwise. The plaintiff's legitimate interest in protecting the distinctiveness of its trade-marks and enforcing its statutory monopoly readily satisfies the first test in *Tank Lining*.

[43] Under the second and fourth tests in *Tank Lining*, the defendants cannot say that the plaintiff's efforts to enforce its trade-marks are either *prima facie* void based on public policy or unreasonable in the public interest. They are explicitly authorized by Parliament. The trade-marks cannot be invalidated in this proceeding and the defendants have not brought proceedings in the Federal Court to attempt to do so.

[44] The defendants have adduced expert evidence of a highly qualified expert in the economics of grey marketing. He testifies that grey marketing can be quite pro-competitive. From this, the defendants argue that limits on grey marketing are contrary to public policy as it promotes imperfectly competitive or monopolistic pricing. I do not have to assess the validity or credibility of the professor's evidence. While he raises interesting issues of competition law policy, he did not consider or balance the fact that the plaintiff is enforcing registered trade-marks in accordance with the *Trade-marks Act*, the *Competition Act*, and the defendants' recognition of the trade-marks in their settlement agreements. Even if prohibiting grey marketing may be generally anti-competitive and monopolistic in tendency, I cannot find contrary to public policy the enforcement of intellectual property rights expressly granted by Parliament and exempted from review for anti-competitive, monopolistic pricing effects under the *Competition Act*. Rather, it is the law of the land that the plaintiff is entitled to do what it is doing or has done to enforce its intellectual property and to settle litigation.

(iii) The Defendants are Prohibited from Selling the Grey Marketed Products by Federal Labelling and Packaging Law

[45] Finally, while the defendants are importing genuine, legitimate branded product from abroad, the labeling on the products does not meet Canadian federal labeling standards. There is no French language information on the packaging. Weights are not provided in metric. The required nutritional panel is missing.

[46] Importing and selling food that is not labelled or packaged in accordance with the regulations violates express prohibitions in sections 5 and 6 of the *Food and Drugs Act*, R.S.C., 1985, c. F-27. The failure to have French information violates the *Consumer Packaging and Labeling Regulations*, C.R.C., c. 417. The failure to display information in metric violates the provisions of the *Weights and Measures Act*, R.S.C. 1985, c. W-6. In my view, is not open to the defendants to argue that they have a right to import and sell products whose importation and sale are prohibited by law quite independent of the trade-mark rights of the plaintiff.

[47] Similarly, without ascribing any altruism to the plaintiff's efforts to enforce federal packaging standards, it is fair to note that the plaintiff's MARS brand products bear a "nut free" logo. Products bearing that logo are made in nut free facilities. The defendants' products, while ostensibly identical to the plaintiff's products, are not always made in nut-free facilities and do not bear the "nut free" logo. Moreover, many of the defendants' products are sold in vending machines where the packaging cannot be inspected by the consumer. The court is not in a position to assess the likelihood of a problem arising with a nut free product that is made in a manufacturing facility that is not certified to be nut free. Nevertheless, the issue demonstrates the type of legitimate concern that a brand owner can and ought to have with packaging differences even for identical product.

[48] In light of the fact that the plaintiff's rights arise from settlement agreements, flow from registered trade-marks, and are being asserted against products that are otherwise illegal to import and sell in Canada all four tests from *Tank Lining* are readily satisfied regardless of where the burden lies on any individual test.

Summary judgment

[49] At the hearing of the motion, counsel for the plaintiff waived all other causes of action pleaded in the amended statement of claim in the event that the plaintiff succeeded against the defendants under the settlement agreements. There was discussion concerning the causes of action for inducing breach of contract and unlawful interference with economic interests against Mr. Ebert personally. As he has been held liable for breach of a settlement agreement, I assume that those causes of action too fall by the wayside.

[50] The plaintiff argues that it may be entitled to an accounting for the profits made by the corporate defendants on the sales of the grey market products. While it is not impossible for an accounting to be ordered in a breach of contract case, I do not see any basis to do so in this case. The plaintiff's damages, if any, are the damages that reasonably flow from the breach. They are readily calculable as lost profits.

[51] Under Rule 20.04 (3) where the only genuine issue for trial is the amount to which the moving party is entitled, the court may order a trial of that issue or grant judgment with a reference to determine that amount. The defendants argue that separating the determinations of liability from damages is an inappropriate bifurcation of the proceedings to which they have not provided their consent under Rule 6.1.01. Summary judgment is not a separate hearing under Rule 6.1.01. There will not be two trials or a trial of one issue followed by a separate trial of a second issue. Summary judgment is its own, alternative model of adjudication. It is not a hearing as contemplated by Rule 6.1.01. *Hryniak v Mauldin*, 2014 SCC 7 at para. 45. In light of the express provision of Rule 20.04 (3), it cannot be the case that the Rules Committee intended summary judgment for liability with a reference for damages to be fall under Rule 6.1.01. The power to direct a reference after summary judgment for liability has been granted does not require the defendants' consent. See *Bondy-Rafael v Potrebic*, 2015 ONSC 3655 (CanLII), at para. 39.

[52] I am satisfied that it is in the interest of justice to apply the facts to the law on the record before the court. As noted above, even if there is an interesting economic debate about whether grey marketing is pro-competitive and limits on grey marketing may be anti-competitive, that issue just does not arise on the facts of this case in light of the settlement agreements, the existence of presumptively valid trade-marks, and the unlawfulness of the defendants' sales in any event. The facts related to the initial sales, the settlement agreements, and the subsequent sales are not in dispute. On the full record before the court, proceeding summarily is efficient, affordable, and proportional. There is nothing left to try on the plaintiff's claims.

[53] Accordingly, I find as a matter of law under Rule 20.04 (4) that the two settlement agreements are not void in restraint of trade. This finding should be contained in the formal order.

[54] Moreover, the findings above effectively resolve all of the defences alleged by the defendants with one exception. Bemco asserts that it tried to buy products from the plaintiff under its Tier 1 and Tier 2 vendor programs and the plaintiff refused. Under the terms of the Bemco settlement agreement, the plaintiff agreed to consider in good faith any application that Bemco might make to enroll as a vendor under those programs. Although Bemco initially declined to make application, it is Mr. Ebert's evidence that it did subsequently try to enroll and it was rebuffed.

[55] Bemco pleads that the plaintiff breached that term of the settlement and that in doing so it committed "delivered pricing" in breach of the *Competition Act* and it committed an offence of conspiracy with competitors under s. 45 of that statute. Bemco pleads in para. 35 of its statement of defence that those acts amount to the tort of intentional interference with economic relations. In its counterclaim, Bemco seeks damages in relation to the alleged refusal of the plaintiff to consider Bemco for enrolment under its vendor programs. I see no overlap between the allegations that may remain in the counterclaim and those decided in this motion. As pleaded, Bemco asserts a cause of action for a civil remedy for conspiracy in restraint of trade under the *Competition Act* and for unlawful interference. Delivered pricing is a reviewable practice under s. 81 of the *Competition Act*. No civil remedy lies in this court for delivered pricing. A trial, if held, will deal with whether the plaintiff refused to sell to Bemco and, if so, why. The legal issues will be whether it refused to supply in bad faith in breach of the settlement agreement, whether it unlawfully interfered with Bemco's economic interests, and whether it conspired with a competitor to limit competition in refusing to supply Bemco. This has nothing to do with whether Bemco and the other defendants sold grey market goods in breach of their settlement agreements. There is no risk of inconsistent verdicts nor any necessary overlap between the issues resolved on this motion and those that remain between Bemco alone and the plaintiff in the counterclaim.

Punitive Damages

[56] The plaintiff claims punitive damages. Having decided to forgo proof of any independently actionable conduct beyond the breaches of contract and in the absence of truly

reprehensible conduct, I do not see this as a case for punitive damages. While the defendants brazenly breached their agreements, everything about this case involves commercial dealings. There is enough grey in grey marketing law and the lack of federal government enforcement of labeling and packaging laws, to prevent the characterization of the defendants' conduct as sufficiently egregious to attract further condemnation from the court.

Summary

[57] In addition to the findings of law set out in paras. 23 and 53 above, the plaintiff is entitled to the declarations sought in paras. 1 (a), (b), 2 (a), and 3 (a) of the amended statement of claim. The claims at paras. 1 (c) through (f), 2 (b) through (e), 3 (b) through (c), 4 (a) through (f) and 4 (j) of the amended statement of claim are dismissed. The quantification of the damages sought at paras. 1 (g), 2 (f) and 3(d) of the amended statement of claim are referred to a Master in Toronto.

[58] Under Rule 20.05(1), I direct that only the counterclaim in para. 38 of the fresh as amended statement of defence and counterclaim remains. This finding should be contained in the formal order.

[59] Prejudgment interest in accordance with s. 128 of the *Courts of Justice Act*, R.S.O. 1990, c. C.43 will apply to any damages that the Master finds due. The plaintiff may submit costs submissions of no more than 5 pages, plus its costs outline, and any offers to settle on which it relies by November 28, 2016. The defendants may submit no more than 5 pages of submissions, plus their costs outline, and any offers to settle on which they rely by December 5, 2016. All documents shall be submitted as attachments to an email to my Assistant in searchable PDF format. Any references to statutory material or case law shall be by way of hyperlinks to CanLII in the submissions. No separate case books or statutory material is to be filed.

[60] Counsel are to convene a Case Conference before me under Rule 50.13 to consider how the remaining issue in the counterclaim is to be resolved.

F.L. Myers J.

Released: November 18, 2016

CITATION: Mars Canada Inc. v. Bemco Cash & Carry Inc., 2016 ONSC 7201
COURT FILE NO.: CV-10-406342
DATE: 20161118

ONTARIO

SUPERIOR COURT OF JUSTICE

BETWEEN:

MARS CANADA INC.

Plaintiff

– and –

BEMCO CASH & CARRY INC., GPAE TRADING CORP., and AIZIC EBERT

Defendants

REASONS FOR JUDGMENT

F. L. Myers, J.

Released: November 18, 2016