

Federal Court



Cour fédérale

Date: 20230130

Docket: T-379-21

Citation No.: 2023 FC 140

Ottawa, Ontario, January 30, 2023

PRESENT: Associate Judge Mireille Tabib

BETWEEN:

MOLO DESIGN LTD.

Plaintiff

and

**CHANEL CANADA ULC,
PROCEDES CHENEL INTERNATIONAL SA
AND CHANEL SAS**

Defendants

AMENDED REASONS AND ORDER

[1] This Order is made in respect of the motion of the Defendants, Chanel Canada LLC, Procedes Chenel International SA and Chanel SAS (collectively “Chanel”), to enforce the Protective Order issued in this matter on April 11, 2022 and the implied undertaking rule. The motion was heard in the fall of 2022, with the last hearing held on December 5, 2022.

[2] There is no doubt or dispute that Todd MacAllen, one of the co-founders of the Plaintiff, Molo Design Ltd (“Molo”), breached the Protective Order. He did so by revealing to Molo’s

lawyers in France, Italy, Taiwan, Germany and the United States information contained in documents that were disclosed by Chanel in this action, and that were designated as “Confidential”. It is not disputed that in doing so, Mr. MacAllen also violated the implied undertaking rule. The disclosure was made, *inter alia*, in email communications dated September 14, 2022, which Mr. MacAllen admits sending to Molo’s lawyers in those jurisdictions. There is no question that the information disclosed in that email was “Confidential Information”, as described in the Protective Order. Disclosure of the same information may also have been made through communication to those same lawyers of an insufficiently redacted motion record.

[3] The Protective Order says very clearly that Confidential Information “shall be kept confidential, shall be used solely for the purpose of the Proceeding [the specific action in this Court] and shall not be disclosed to anyone except in accordance with the terms of this Order.”

[4] Chanel’s motion seeks relief by way of remedial measures designed to ensure that no further use or disclosure of the confidential information occurs, and by way of sanctions designed to punish Molo for its conduct. I will begin by considering that part of Chanel’s motion that seeks sanctions before moving on to the remedial measures requested.

I. **Sanctions**

[5] The violation of a Protective Order is a very serious matter. It can cause harm to the party whose confidential information was unlawfully disclosed. It can also have very grave consequences for the party and the persons who breached the Order. They may be subject to contempt of Court proceedings, and liable to fines or imprisonment. A violation of the implied

undertaking rule is an equally serious matter. It erodes public confidence in the judicial process and strikes at the authority of the Court. The consequences for those breaching it range from suspension or dismissal of their proceeding to contempt of Court proceedings (*Juman v Doucette* 2008 SCC 8 at para 29).

[6] As I indicated to the parties at the December 5, 2022 hearing, I decline to grant the sanction sought by Chanel in this matter, to dismiss part of Molo's Statement of Claim. I do so because, at the time of hearing the motion, it appeared that Molo's breach had not caused prejudice to Chanel beyond the cost and expense of this motion. Furthermore, any harm to the integrity of the judicial process caused by the breach is insufficiently linked to the form of sanction sought.

[7] I also expressly refrain from making any finding as to the state of mind or intent of Mr. MacAllen or of Molo, or as to the blameworthiness of their conduct, as I do not wish to prejudge any future contempt proceedings Chanel might wish to bring in respect of the breach.

[8] As I was drafting this Order, Chanel wrote to the Court to advise that there may have been further inappropriate use of the confidential information at issue. I do not take these allegations into account in this Order. It is based solely on the facts and information that were before me at the time of the December 5, 2022 hearing. Chanel's right to seek further or additional relief or sanctions in light of the new information set out in counsel for Chanel's letter of January 24, 2023, are reserved.

[9] Given the above, my focus in this Order is not on sanctioning past disclosures but in crafting an appropriate remedy to ensure that the terms of the Protective Order are respected and that no further inappropriate use of the confidential information can be made.

II. Remedial Measures

A. *The Provisions of the Protective Order*

[10] The Protective Order contains provisions that set out what a party is required to do when it is responsible for the unauthorized disclosure of information designated as Confidential.

Paragraph 17 and 20 provide that:

17. In the event that Confidential Information or Solicitor's Eyes Only Information is disclosed to anyone other than in the manner authorized by this Order, the Receiving Party responsible for such disclosure shall immediately bring all pertinent facts relating to the disclosure to the attention of the Producing Party who designated the Information as Confidential Information or Solicitor's Eyes Only Information and shall make every effort to prevent further disclosure of the Information.

20. Any Party who inadvertently discloses Confidential Information or Solicitor's Eyes Only Information shall, upon discovery of the disclosure, promptly notify in writing all inadvertent recipients of the Information in question. The recipients of the document shall then promptly request all persons to whom the Information was disclosed to refrain from reading or viewing the Information and return it and all copies thereof to the Party who disclosed it, or destroy the Information and all copies thereof. No such inadvertently disclosed document or information contained therein may be used or disclosed by the recipient(s) without leave of the Court.

[11] It is evident that the purpose and intent of these remedial clauses is to ensure that an immediate stop be put to further dissemination and use of confidential information, and to limit and manage the harm that might arise from the initial disclosure. One of the harms caused by

unauthorized disclosure is the erosion of trust between the parties that the confidentiality of their information will be respected in the future.

[12] The requirement that the producing party be immediately notified of the unauthorized disclosure and of “all pertinent facts” relating to it acknowledges the interest of the producing party, not only in knowing the extent of the breach, but also in being informed and able to monitor the remedial steps taken by the defaulting party. I have no hesitation in finding that Molo’s obligation under the Protective Order to bring to Chanel’s attention all pertinent facts relating to the disclosure includes informing it, on an ongoing basis, of all steps it takes to conform to the other obligations of paragraph 17 and 20, and of the results of these efforts.

[13] In the present case, Molo was therefore required to take the following remedial measures:

1. Promptly notify all foreign counsel in writing that the information disclosed to them in the September 14, 2022 email was disclosed in breach of a Protective Order.
2. Instruct all foreign counsel to advise it of all persons to whom they in turn had disclosed the information, and details of that disclosure.
3. Instruct all foreign counsel to immediately:
 - a) cease using the information
 - b) refrain from disclosing or using it any further unless this Court had authorized it;
 - c) return the information and all copies thereof to Molo, or destroy them;
 - d) require all other persons to whom they disclosed the information to do the same; and
 - e) report to Molo as to the performance of these instructions.

[14] It then had a duty to share with Chanel the details of all that it had done and of the responses received from its foreign counsel.

[15] I stress that the remedial duties of a party who, intentionally or inadvertently, discloses confidential information in violation of the Protective Order include informing all potential recipients that the disclosure was made in breach of a Court Order. No less is required to meet that party' obligation to "make every effort to prevent further disclosure of the information". A recipient who is merely asked, told or instructed to cease using information is less likely to appreciate the urgency and necessity of those instructions and to carry them out than one who is informed that the disclosure was made in breach of a Court Order. Indeed, contempt proceedings may be taken against any person who, knowing of the existence of a Court Order, "acts in such a way as to interfere with the orderly administration of justice, or to impair the authority or dignity of the Court" (*Federal Courts Rules*, rule 466 (c)).

B. *What Molo Has Done to Comply*

[16] The question of whether Molo has done enough to comply with its obligation under the Protective Order following the breach is the central issue on this motion. As of the hearing of the motion, on the fact as it knew them at the time, Chanel was satisfied that sufficient steps had been taken in respect of the disclosure to the German, Taiwanese, and American solicitors. My Order therefore does not apply to these solicitors specifically and there is no need for me to set out what was done in their regard. I will describe only what it appears, from the record, that Molo has done insofar as its actions relate to the French and Italian solicitors. I will then identify what Molo appears to have yet failed to do.

[17] Molo disclosed to Chanel that Mr. MacAllen had sent an email to Benjamin May in France and to Alberto Tornato, in Italy, on September 14, 2022, which contained confidential

information. These two gentlemen are Molo's solicitors, involved in prosecuting copyright infringement actions on Molo's behalf against Chanel in those jurisdictions. A copy of the email sent to Mr. May was provided. The email sent to Mr. Tornato was not, but Mr. MacAllen affirms that its content is "identical" to the content of the email to Mr. May.

[18] Mr. MacAllen states that on September 16, 2022, he instructed Mr. May and Mr. Tornato to "destroy/delete the September 14, 2022 emails." He does not say whether these instructions were given in writing or orally. There is no mention of any other instructions given by Mr. MacAllen or by Molo to these two solicitors.

[19] Mr. Tornato has written to Molo's principals, on November 17, 2022, to state that he "had been advised" that the Court "invited" him to write a letter to Molo setting out the details of "correspondence allegedly exchanged" between them, amongst others, an email of Mr. MacAllen dated September 14, 2022. The letter, in Mr. Tornato's understanding, is "meant to be filed and/or shown" to third parties in the Canadian proceedings. Mr. Tornato states that he declines to "follow this invitation", claiming that the ethical rules in force in Italy compel him to refrain from any disclosure regarding information provided to him by Molo, and that Molo cannot relieve him of that obligation. He concludes by saying that "Therefore, it is my right and my duty of to [sic] refrain from releasing any information meant to be disclosed to third parties."

[20] Mr. May has written to Molo's Canadian counsel on November 18, 2022. In that letter, he states that he has received Molo's Canadian counsel's request. That request was to provide to Molo a statement providing specific identification of receipt by his firm of confidential

documents, including the September 14, 2022 email and the redacted motion record mentioned at the outset of this Order, together with the date of receipt, to whom it has been disclosed, whether it has been reviewed by them or other recipients, what other use they or other recipients have made of the information, and to confirm that all copies of the documents or information have been destroyed and would not be further used or disclosed. He was also asked, where possible, to remove the redacted motion record and any translation thereof from any court filing, along with any document, submission or other material that refers to or relies upon it. Mr. May also says that he understands that the statement he was asked to give would be provided to the Chanel defendants in the Canadian action.

[21] Mr. May states that the rules of professional secrecy that apply to French attorneys prohibit him to reveal “to third parties, either directly or indirectly, the correspondence with his client, Molo, its founders or other attorneys”. He states that these rules cannot be waived by the client, and “Therefore we cannot comply with a request from our client [...] to provide a statement on whether or not we received certain documents from them.” He otherwise however confirms that the redacted motion record from the Canadian proceedings was filed as part of his brief in the French proceedings, that a new brief from which the record and related paragraphs were withdrawn has now been filed. He also provides details of the use and dissemination of those court filings.

[22] The position taken by the French and Italian solicitors is somewhat dismaying in the narrowness of their interpretation of the requests put to them and their apparent determination not to engage with the spirit of the requests. However, what is most glaring in the record before

me is the absence of any evidence that Molo has complied with the following specific obligations resulting from its breach of the Protective Order, as identified above:

1. To promptly notify Mr. May and Mr. Tornato in writing that the information disclosed to them in the September 14, 2022 email was disclosed in breach of a Protective Order.
2. To instruct Mr. May and Mr. Tornato to advise it of all persons to whom they in turn had disclosed the information, and details of that disclosure.
3. To instruct Mr. May and Mr. Tornato to immediately:
 - a) cease using the information
 - b) refrain from disclosing or using it any further unless this Court had authorized it;
 - c) require all other persons to whom the information was disclosed to do the same cease and refrain from using or disclosing the information and to destroy or return it; and
 - d) report to Molo as to the performance of these instructions.

[23] To be clear, the only thing one can confidently conclude that Molo has instructed Mr. May and Mr. Tornato to do is to destroy the September 14 email. We can also conclude that Mr. May and Mr. Tornato are now aware that there is a Protective Order in place in Canada. However, whether they are aware of its terms or that the disclosure made by Mr. MacAllen in the September 14 email constitutes a breach of that order is most unclear. There is no indication that Mr. May and Mr. Tornato are aware that Molo has duties to fulfil as a result of its breach, and that it stands to be penalized, potentially quite severely, if it fails or persist in failing to comply with these obligations.

[24] Indeed, it seems to have been lost in the heat of litigation that the breach is Molo's, that the remedial obligations are Molo's, that the efforts to meet these obligations are Molo's and that the consequences of failure will be visited on Molo. Instead, everyone, from Chanel to Molo's Canadian and foreign counsel, have been fixated on obtaining, as directly as possible from the foreign counsel, an account of what they have done with the information. The roadblocks that

have been thrown up by these solicitors were created precisely because Chanel preferred, naturally, to obtain the information directly from them rather than from Molo. However, this has allowed Molo to conveniently retreat to the sidelines. It has been content to let the lawyers work out what foreign counsel could or could not disclose indirectly to Chanel or to the Court.

[25] This is wrongheaded. Molo committed the breach, and the remedial and informational obligation are Molo's. Given how significantly Molo has failed to account for its own actions and efforts, I decline to delve into the minutiae of whether the foreign counsel's position appears justified and whether or how a more useful response could be elicited from them. It is up to Molo, not up to Chanel or to the Court, to figure out what information it can obtain from its own foreign solicitors, and to determine whether and how Molo can use it to effectually and substantially comply with its obligations. This would start by explaining to its own foreign solicitors, whom one would assume have an obligation to look out for their client's best interest, the predicament in which it finds itself. From there, Molo must work out for itself, with its foreign solicitors' help, how it can remedy its default. If it turns out that its foreign solicitors are so hamstrung by their professional obligations that they cannot provide to their own client the information it needs to extricate itself from the predicament it has created for itself, then it is for Molo to explain that to Chanel. It would also have to satisfy Chanel that it has tried every available avenue. It may be that the dilemma can only be resolved by Mr. May and Mr. Tornato returning all of Molo's documents and ceasing acting for it. Indeed, the Italian law expert called by Molo on this motion suggested that this could be counsel's only option if he feels it can not lawfully comply with its client's instructions. This may ultimately be the only way for Chanel to

get the comfort it seeks that no further use of the information can be done through those solicitors.

[26] The Court, however, cannot and should not dictate to Molo or to its foreign counsel how to act. Doing so may have the infelicitous and counterproductive effect we have seen up to now, of presenting to Molo its obligations as a series of prescriptive steps, without responsibility or consequences if any of the steps cannot practically be implemented exactly as prescribed.

[27] In short, Molo has a clear duty to “make every effort” to prevent further disclosure of the information it unlawfully disclosed. Some of the required elements of this effort are spelled out in this Order. How Molo achieves this is its own business, but it is required to provide all relevant facts to Chanel, including confirmation of how it has fulfilled its obligation and, if any element cannot be met, to disclose the efforts it made and why they have failed.

III. Costs

[28] Chanel failed to obtain some of the relief sought in its motion. Some other forms of relief may have been impossible to implement or may have been put in a form that created more problems than it solved. Still, Molo did breach the Protective Order. Having done so, it failed to promptly and effectively take steps to comply with all of its obligations under the Protective Order. Its response to the solutions suggested by Chanel was obtuse and suggested an abnegation of any responsibility for finding an effective solution. This merits sanctions in costs.

[29] Chanel has submitted a bill of costs based on the high end of Column V of the Tariff. The bill of costs is excessive because it claims, for every item, an additional charge of 50% of counsel fees for a “second counsel”. That charge is only available in respect of appearances or preparation for the trial of an action or the hearing of an application. The Tariff, properly interpreted, also does not provide for a separate fee to prepare for the hearing of a motion.

[30] Considering the time devoted to this matter and its complexity, I am satisfied that the amount of \$15,000 is appropriate in the circumstances.

[31] The parties also agree that the costs of Molo’s abandonment of a previous motion for redesignation of confidential information should be awarded to Chanel, and be calculated at the high end of Column V of the Tariff. Molo suggested that this calculation should be remitted to an assessment officer. I fail to see why it would be efficient to do so. Chanel has submitted a bill of costs, which, apart from the same excesses noted above, provides more than adequate guidance for me to exercise my discretion in awarding the cost of that abandoned motion in a fixed amount. I am satisfied that the amount of \$8,000 roughly coincides with the high end of Column V of the Tariff for the steps that appear to have been taken, and is adequate in the circumstances.

THIS COURT ORDERS that:

1. The Plaintiff shall, forthwith:
 - a. Communicate a copy of this Order and of the Protective Order of April 11, 2022 to Benjamin May and Alberto Tornato;
 - b. Instruct Benjamin May and Alberto Tornato, in writing, that the information provided to them in Mr. Todd MacAllen’s email of September 14, 2022 was provided in breach of the Protective Order of April 11, 2022;
 - c. Instruct Benjamin May and Alberto Tornato, in writing, to advise it of all persons to whom they in turn have disclosed the information, and of the details of that disclosure;

- d. Instruct Benjamin May and Alberto Tornato, in writing, to immediately:
 - a. cease using the information
 - b. refrain from disclosing or using it any further unless this Court had authorized it;
 - d. require all other persons to whom the information was disclosed to cease and refrain from using or disclosing the information and to destroy or return it to them, so that they can destroy or return it to the Plaintiff; and
 - e. report to the Plaintiff as to the performance of these instructions.
2. The Plaintiff shall, in a timely fashion and on a rolling basis, provide to Chanel all relevant fact relating to the performance of its obligations under this Order and under the Protective Order.
3. To the extent the Plaintiff is unable to comply with any part of this Order, it shall provide to Chanel all relevant facts regarding why it is unable to comply and what steps it has taken to attempt to comply with this Order and with its obligations under the Protective Order.
4. The obligations set out in this Order are not intended to be limitative to of the steps the Plaintiff may be required to take to comply with the requirements of the Protective Order.
5. The Defendants' rights to seek other sanctions, including in the form of contempt proceedings, in respect of past breaches of the Protective Order and of the Implied Undertaking Rule are reserved.
6. The Defendants' rights to seek any form of redress or sanctions in respect of breaches of the Protective Order that were not known to them as of December 5, 2022 are reserved.

7. Costs of this motion shall be paid by the Plaintiff to the Defendants, in the fixed amount of \$15,000.00.

8. Costs of the Plaintiff's abandoned motion to modify the designations under the Protective Order shall be paid by the Plaintiff to the Defendants, in the fixed amount of \$8,000.00.

"Mireille Tabib"

Associate Judge

FEDERAL COURT
SOLICITORS OF RECORD

DOCKET: T-379-21

STYLE OF CAUSE: MOLO DESIGN LTD. v CHANEL CANADA ULC,
PROCEDES CHENEL INTERNATIONAL CA and
CHANEL SAS

PLACE OF HEARING: OTTAWA, ONTARIO

DATE OF HEARING: DECEMBER 5, 2022

**REASONS FOR JUDGMENT
AND JUDGMENT:** ASSOCIATE JUDGE TABIB

DATED: JANUARY 30, 2023

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