

Canada Opens the Door to U.S. Injunctions: The Impact of the Supreme Court of Canada Decision in *Pro Swing Inc. v. Elta Golf Inc.*



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A recent decision of the Supreme Court of Canada has important implications for New York labor and employment lawyers and their clients, who may wish to enforce a U.S. court order in Canada. On November 17, 2006, in the case of *Pro Swing Inc. v. Elta Golf Inc.*,² the Supreme Court held that the time had come to recognize important changes in international commerce, labor mobility and technology, and to reverse the long standing common law principle in Canada preventing a litigant from enforcing foreign non-monetary judgments.

The effect of this judgment by Canada's highest court is that an injunction obtained before a New York court may now be enforced in Canada. For example, an employer may now enforce a restrictive covenant in Canada, even though it obtained an order from a New York court with respect to that covenant. However, there are certain requirements and caveats. These important restrictions, which may affect whether enforcement of the foreign non-monetary judgment may be obtained in Canada, are discussed below. Note that a U.S. judgment will still require certain legal formalities in order to be enforced, and these may vary depending on the U.S. state and Canadian province in question.

Pro Swing was not an employment case. It was an intellectual property case. However, its applicability stretches beyond the field of intellectual property. The significance of the judgment is truly in the area of private international law, and its effect will be on a wide range of legal disciplines, including employment law.

The facts of *Pro Swing* are relatively simple. Pro Swing was a U.S. company that owned a trademark for a type of golf club: "Trident". Elta Golf was a Canadian company that sold products that resembled the Trident trademark on its website. In 1998, Pro Swing sued Elta Golf in Ohio for trademark infringement and dilution, use of a counterfeit mark, unfair competition and deceptive trade practices. Shortly after the commencement of the

lawsuit, the parties entered into a settlement agreement which included a consent decree of the Ohio court.

Five years later, Pro Swing learned that Elta Golf was violating the consent decree and started a new legal proceeding in Ohio. Elta Golf did not defend. Pro Swing then obtained an order for contempt, and a confirmation of the earlier consent decree. The court ordered further a combination of monetary and non-monetary relief.

Following the Ohio judgment, Pro Swing filed a legal proceeding in Ontario, where Elta Golf did business. Pro Swing sought recognition of the 1998 consent decree and 2003 court order. Elta Golf defended by arguing that the U.S. orders were not final judgments for a fixed sum of money, and could therefore not be enforced in Canada. The effect of Elta Golf's position, if sustained, would have been to force Pro Swing to litigate the entire "Trident" dispute in Ontario, notwithstanding the earlier orders obtained. In short, Pro Swing would be back to square one.

Unfortunately for Pro Swing, the law in Canada as stated by Elta Golf was correct. Traditionally, a distinction was drawn in Canada between the enforcement of foreign monetary and non-monetary judgments. The theory behind this distinction was that non-monetary relief was a form of equitable remedy, and such remedies should be enforced only by a domestic court. Pro Swing sought to change the law.

The issue of the enforceability of the Ohio orders came before an Ontario motions' court judge, who held that the principles in the 1990 Supreme Court of Canada case of *Morguard Investments Ltd. v. De Savoye*,³ paved the way for the enforcement of foreign non-monetary judgments. The judge held further that the enforcement of such non-monetary judgments should not be without limit, and that various requirements would still have to be met. In particular, the terms of the foreign order had to be final and conclusive. The judge then proceeded to find for Pro Swing, with the exception of certain aspects of the 2003 order.

Elta Golf appealed to the Ontario Court of Appeal. The Court of Appeal agreed with the lower court judge that the time had come for the law to change, but found that on the facts of this case, certain requirements had not been met. In particular, that the consent decree and order in this case were ambiguous with respect to the scope of their extraterritorial application. Pro Swing then sought and was granted leave to appeal to the Supreme Court of Canada.

The Supreme Court unanimously agreed that the time had come for the law to change, and for the prohibition against recognition of foreign non-monetary judgments to be

lifted. Moreover, the court agreed that certain requirements would have to be met for such an order to be enforced in Canada.

However, the court split 4-3 in its applicability of this new jurisprudence to the facts of this case. The majority agreed with the Court of Appeal and denied Pro Swing its relief. Writing for the majority, Madam Justice Deschamps stated that the order's extraterritorial scope was uncertain. In addition, the majority found that the 2003 order was quasi-criminal in nature. The dissenting minority, in a decision written by Chief Justice Beverley McLachlin, agreed with the lower court and held that Pro Swing's claim should be granted.

Of interest to U.S. practitioners are the general principles set forth by the court, in which all judges were essentially in agreement. In the majority decision, Madam Justice Deschamps explained the need for change in the common law, in the face of significant and recent developments in business:

Modern-day commercial transactions require prompt reactions and effective remedies. The advent of the Internet has heightened the need for appropriate tools. On the one hand, frontiers remain relevant to national identity and jurisdiction, but on the other hand, the globalization of commerce and mobility of both people and assets make them less so. The law and the justice system are servants of society, not the reverse. The Court has been asked to change the common law. The case for adapting the common law rule that prevents the enforcement of foreign non-money judgments is compelling. But such changes must be made cautiously. Although I recognize the need for a new rule, it is my view that this case is not the right one for implementing it.⁴

While she concluded that the law should change, this was not the appropriate case for her and the majority in which such a change should be implemented. Nevertheless, she set forth certain relevant factors that had to be considered prior to enforcement, as a guide to courts dealing with this issue:

I agree that the time is ripe to revise the traditional common law rule that limits the recognition and enforcement of foreign orders to final money judgments. However, such a change must be accompanied by a judicial discretion enabling the domestic court to consider relevant factors so as to ensure that the orders do not disturb the structure and integrity of the Canadian legal system.⁵

The relevant factors to be considered in whether the foreign non-monetary judgment should be enforced was not a fixed list or precise exercise. Madam Justice Deschamps, concluded as follows:

The evolution of the law of enforcement does not require me, at this point, to develop exhaustively the criteria a court should take into account. As cases come up, appropriate distinctions can be drawn. For present purposes, it is sufficient to underscore the need to incorporate the very flexibility that infuses equity. However, the conditions for recognition and enforcement can be expressed generally as follows: the judgment must have been rendered by a court of competent jurisdiction and must be final, and it must be of a nature that the principle of comity requires the domestic court to enforce. Comity does not require receiving courts to extend greater judicial assistance to foreign litigants than it does to its own litigants, and the discretion that underlies equitable orders can be exercised by Canadian courts when deciding whether or not to enforce one.⁶

With this judgment, which is binding on all courts in Canada, the longstanding prohibition under common law against enforcement of foreign non-monetary judgments came to an end. However, New York practitioners must be aware that for such a U.S. order to be enforceable in Canada, it must comply with certain requirements. These include, but are not limited to, the need for the order to be final, in the sense that it does not require further interpretation, and that it be issued by a court of competent jurisdiction. New York practitioners should also be aware that, as would occur in the U.S., this new direction in the law will result in further case law among lower courts. Those developments, both at the trial and appellate levels, will be significant in defining the various circumstances under which this law can be used.

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² 2006 SCC 52 (CANLII).

³ 1990 CanLII 29 (S.C.C.), [1990] 2 S.C.R. 1077.

⁴ *Pro Swing, supra.* at para. 1.

⁵ *Ibid.* at para. 15.

⁶ *Ibid.* at para. 31.

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