

**Submission on
Modernization of the *Trade-marks Act* re
Product Counterfeiting**

CANADIAN ANTI-COUNTERFEITING NETWORK

Principal Author:

Brian Isaac

May 2005

Submission on Modernization of the *Trade-marks Act re Product Counterfeiting*

TABLE OF CONTENTS

PREFACE	i
I. INTRODUCTION	1
II. IMPACT OF COUNTERFEITING IN CANADA	2
A. Economic	2
B. Criminal Element	2
C. Health and Safety	2
D. Treaty Obligations	2
E. Inadequacy of Canada’s Criminal Provisions.....	3
F. BORDER ENFORCEMENT	4
III. LIMITED EFFECTIVENESS OF CIVIL ENFORCEMENT	4
IV. RECOMMENDED REFORM	5
A. New Legislative Framework.....	5
B. Amendments to Existing Legislation.....	5
C. Reform of the <i>Trade-marks Act</i>	5
V. DISCUSSION ON PROPOSED REFORMS TO THE <i>TRADE-MARKS ACT</i>	6
A. Defining the Prohibited Activity.....	6
B. Offences for Commercial Manufacture, Reproduction, Importation and Distribution of Counterfeit and Pirated Products.....	7
C. Seizure and Destruction: Summary administrative procedures	8
D. Improved and Effective Border Measures	8
E. Jurisdictional Issues	9
F. Providing Information to and Cooperation with IP Owners	10
G. Cooperation between Law enforcement and Trade-mark Owners	11
H. Civil Remedies.....	11

PREFACE

The Canadian Anti-Counterfeiting Network

The Canadian Anti-Counterfeiting Network (CACN) is a coalition of individuals, companies, firms and associations that have united in the fight against product counterfeiting and copyright piracy in Canada and internationally. The originating members of CACN include broad-based organizations, such as the Retail Council of Canada, the Canadian Association of Importers and Exporters, the Canadian Manufacturers and Exporters, the Canadian Standards Association (CSA), the Electro-Federation Canada, and the Canadian Motion Picture Distributors Association; companies from a range of industries; and law firms representing a host of intellectual property (IP) rights holders – Canadian and foreign – with significant businesses in Canada.

This submission was prepared by the Legislation and Lobbying Committee of the Canadian Anti-counterfeiting Network and is submitted on behalf of CACN.

**Submission on
Modernization of the *Trade-marks Act*
re Product Counterfeiting**

I. INTRODUCTION

The CACN submits that urgent reform is needed for effective legislation to deal with the manufacture, importation, distribution and sale of counterfeit products in Canada. Fifteen years ago, the majority of counterfeit goods were t-shirts and novelty items sold at flea markets and by itinerant street vendors. Since then there has been an explosion in the variety and volume of counterfeit goods available on the Canadian and international markets, including many products that pose serious threats to consumer health and safety. Moreover, such products are now routinely found in upscale shopping malls and reputable retail chains.

Counterfeit products noted in Canada in the last few years, often bearing phony certification marks in addition to manufacturers' marks, include: pharmaceutical products, children's toys, electrical products, automobile and aircraft parts, batteries, food and beverages ranging from baby formula to alcoholic beverages, safety footwear, personal care products, eyewear, apparel and accessories, software, CDs, DVDs, watches, cigarettes, novelty items, cellular phone accessories, ink jet and toner cartridges, and luxury goods of all kinds.

II. IMPACT OF COUNTERFEITING IN CANADA

A. Economic

The current Canadian market in counterfeit products is estimated to be \$20 - 30 billion dollars annually.¹ The result is significant negative impact on tax revenues, legitimate business profits (manufacturers, distributors, retailers, etc.), brand value, employment, and generally, a significant loss from legitimate markets to the underground or black market.

B. Criminal Element

Links have been established to organized crime and terrorist organizations,² which is not unexpected in view of the high profit and low risk nature of product counterfeiting.

C. Health and Safety

Significant health and safety and environmental issues are raised from the distribution of such products. Typical of unlawful black market activities, the perpetrators are solely concerned with profit, regardless of risks to consumers and the environment.

D. Treaty Obligations

Canada has international treaty obligations under the General Agreement on Tariffs and Trade (GATT), Trade-Related Aspects of Intellectual Property Rights (TRIPS) Agreement and the North American Free Trade Agreement (NAFTA). These obligations include providing effective criminal enforcement against willful trade-mark counterfeiting on a commercial scale, as well as implementing border measures to prevent the importation of counterfeit goods. In practice, the existing Canadian provisions do not meet the obligations agreed to under the treaties. The ineffectiveness of the existing Canadian system is exemplified by the fact that

1 J. Myers, April 7, 2005 Canadian Manufacturers and Exporters Association and Canadian Standards Association Anti-Counterfeiting conference.

2 *The Links between intellectual property crime and terrorist financing* text of public testimony of Ronald K. Noble, Secretary General of Interpol, before the United States House Committee on International Relations, One hundred eighth Congress (July 16, 2003), at <http://www.interpol.int/Public/ICPO/speeches/SG20030716.asp?HM=1> (last accessed May 26, 2005); IACC White Paper on the Negative Consequences of International IP Theft, January 2005, at [www.iacc.org/white paper.pdf](http://www.iacc.org/whitepaper.pdf) (last accessed May 26, 2005).

Canada is on the United States Trade Representative's (USTR) "Special 301 Watch List" based on the inadequacies in criminal enforcement against intellectual property crime and lack of effective border enforcement. In March 2005, the International Anti-counterfeiting Coalition, on behalf of many of its members trading in Canada and around the world, issued a report asserting that China provides better enforcement than Canada and pushing for Canada to be placed on the USTR "Priority Watch List".³

E. Inadequacy of Canada's Criminal Provisions

Canada's criminal provisions directed against manufacture, distribution and sale of products displaying counterfeit trade-marks are inadequate. These provisions are seldom used by law enforcement or prosecutors, the preference being to proceed under copyright provisions, even in cases where the offence primarily relates to reproduction of trade-marks. For instance, in two recent cases regarding counterfeit soccer team logo's on jerseys (*R. v. AFC Soccer*)⁴ and counterfeit certification marks on electrical products (*R. v. San Francisco Gifts Ltd.*),⁵ charges were laid under the *Copyright Act* and no charges were laid under any trade-mark related provisions.

Currently, the only penal provisions specifically addressing trade-mark counterfeiting are sections 406-412 of the *Criminal Code*. However, those sections raise many difficulties with enforcement, including the *mens rea* requirement under the only section specifically directed against distribution of counterfeit products.⁶ The other difficulty is the lack of a provision making it an offence to import such products.

³ IACC, Submission of the International AntiCounterfeiting Coalition to the United States Trade Representative, Special 301 Recommendations, February 11, 2005, available at www.iacc.org/2005-301.pdf (last accessed on May 26, 2005).

⁴ *R. v. AFC Soccer* (2002), 22 C.P.R. (4th) 369 (Man. Prov. Ct.) rev'd on other grounds (2004) 32 C.P.R. (4th) 53 (Man. C.A.)

⁵ *R. v. San Francisco Gifts Ltd.* (unreported decision of the Man. Prov. Ct. December 30, 2004); Reported National Post, Friday Dec. 31, 2004.

⁶ CC s. 408 (a); and see *R.v. Ferjo* (1994), 58 C.P.R. (3d) 223 (Ont.C.A.).

F. Border Enforcement

Border enforcement is particularly problematic. Despite most counterfeit goods sold in Canada being imported, counterfeit goods are not prohibited items under the *Customs Act* and there is no provision making it a criminal offence to import goods bearing counterfeit trade-marks.

The provisions in the *Trade-marks Act* dealing with importation of products using counterfeit trade-marks (sections 52 – 53.3) provide civil procedures requiring a court order to effect detentions, and commencement of an action to determine the legality of importation. These provisions are rarely used as the required information for obtaining an order from a court will seldom be available prior to importation and release of the products, and since the cost of proceeding will normally significantly exceed any likely monetary recovery. In addition, if the information is available it may only be available to customs officials who are unable to or refuse to share the information with intellectual property owners.

III. LIMITED EFFECTIVENESS OF CIVIL ENFORCEMENT

Generally, civil enforcement is seldom effective against trade-mark counterfeiting as:

- Civil enforcement is expensive.
- Limited records are available.
- It is difficult to prove significant damages or profits.
- Only stock in hand of counterfeit or pirated products is available to be seized.
- Little or no realizable assets are in the hands of the companies or individuals named as defendants in the proceedings.

Provisions on statutory damages and summary seizure and destruction at the expense of the manufacturer, importer or distributor in obvious cases would assist, but effective penal provisions will still be required.

The lack of effective penal provisions combined with the explosion in counterfeit products results in damage to Canada's economy, international reputation and society at large and must be addressed as soon as possible.

IV. RECOMMENDED REFORM

A. New Legislative Framework

It may be that the most effective way to proceed with statutory reform would be to enact new legislation prescribing a complete framework for civil, administrative and criminal procedures and offences. This would include cost effective seizure and forfeiture of counterfeit (and pirated) products and imposition of appropriate penalties.

B. Amendments to Existing Legislation

Alternatively, significant amendment may be made to various statutes, including the *Copyright Act*, *Customs Act*, *Customs Tariff*, *Criminal Code* and the *Trade-marks Act*, to provide effective enforcement provisions including effective civil, administrative and criminal enforcement both at the border and domestically.

C. Reform of the *Trade-marks Act*

In the context of reform of the *Trade-marks Act*, recommended amendments should add provisions that:

- Define the prohibited activity;
- Prescribe offences for manufacture, commercial importation and distribution of counterfeit products;
- Provide authority to seize counterfeit products;
- Provide simple, inexpensive, administrative procedures for destruction of counterfeit products;
- Enact border measures to mandate and facilitate *ex officio* detection, seizure and destruction of imported counterfeit products by customs officers;

- Deal with jurisdictional issues in respect of administrative and criminal enforcement and prosecution;
- Provide for disclosure of information to and cooperation with intellectual property owners; and
- Provide summary civil proceedings for clear cases of product counterfeiting and piracy.

V. DISCUSSION ON PROPOSED REFORMS TO THE *TRADE-MARKS ACT*

A. Defining the Prohibited Activity

The scope of the prohibition should be limited to clear cases of commercial product counterfeiting. Civil proceedings and the existing body of trade-mark law are best suited to dealing with marginal cases such as non-commercial situations or situations where there is arguable colour of right.

No clear distinction has been made between civil and criminal infringement of intellectual property in Canada. Creating a definition of “counterfeit products” may assist by clearly defining the bounds of criminality and avoiding debate over balancing individual rights and freedom of competition against the need to deter trade-mark counterfeiting.

CACN submits that criminality should be established when it is proven that the products have been manufactured or labeled so as to appear to be a product manufactured by (or under the control or approval of) an entity that did not in fact manufacture (or control or approve the manufacture of) the product. Thus criminal enforcement should be reserved for products that are deceptive copies of existing products, or blatantly reproduce known logos or brands.

Situations where there is arguable colour of right should generally be left to civil enforcement, such as where intent to copy or deceive is only arguable.

In addition to defining counterfeit products, it is recommended that the provisions define and prohibit devices and implements having the primary purpose of facilitating product counterfeiting.

B. Criminal Versus Strict Liability Offences

(i) What should be a criminal offence?

CACN recommends that provisions be enacted to clearly make it a criminal offence to manufacture, reproduce, import or distribute, whether at wholesale or retail, counterfeit products for commercial purposes. The *actus reus* of the offence would be the performing of the prohibited acts, or the possession of counterfeit products for the purpose of commercial distribution. The *mens rea* of the offence would be knowledge of the perpetrator that the products reproduce trade-marks without authorization by the owner, or that the accused has been willfully blind to that being the case. That the purchasers bought the products with knowledge that they were counterfeit would not be a defence. Available defences would, however, include invalidity of the trade-mark rights, non-infringement and direct or indirect consent from the intellectual property owner. Significant penalties including fines and imprisonment should be provided with a general stipulation that the penalty should attempt to ensure that the activity has been unprofitable.

(ii) What should be a strict liability offence?

In addition to criminal provisions, CACN recommends that a strict liability offence be enacted to deal with situations where the counterfeit nature of the products being marketed is clear but knowledge or willful blindness cannot be proven beyond a reasonable doubt, or where criminal prosecution is not cost effective in all the circumstances. A procedure providing for issuance of tickets prescribing set fines is recommended. The accused could contest the charge by, *inter alia*, proving no knowledge or willful blindness on a balance of probabilities. The recommended offence would, in effect, be a reverse onus provision requiring the perpetrator to establish facts supporting their alleged lack of knowledge on a balance of probabilities. Lesser penalties than those provided for in the criminal offence would be prescribed.

(iii) What devices should be prohibited?

Provisions should also be enacted making it an offence to manufacture, distribute, use and possess products whose primary purpose is to facilitate counterfeiting. Such implements and devices would include all unauthorized copies, including digital copies, of counterfeit works, as well as, dies, silk-screens and other products, implements and devices adapted to forge trade-marks, prepare counterfeit packaging and labeling, etc.

C. Seizure and Destruction: Summary Administrative Procedures

Summary administrative procedures should be provided for seizure and destruction of counterfeit products and products whose primary purpose is to facilitate manufacture or distribution of such products.

CACN recommends that the procedures generally provide for detention and forfeiture, subject to a summary review procedure whereby owners of the goods may object to forfeiture. If the owners do not object within a short notice period forfeiture would be automatic. An administrative body would be required to hear objections, presumably connected to Industry Canada. The procedures should also provide a means for trade-mark owners to seek an order for payment of reasonable costs incurred as a result of the commercialization of forfeited goods. Similarly, provisions similar to those in the *Customs Act* may make importers and owners of forfeited goods liable for all reasonable expenses incurred by the Crown in storing and disposing of the goods.

D. Improved and Effective Border Measures**(i) Mandate of Canada Border Services Agency (CBSA)**

One of the primary aims of reform must be to provide the CBSA with a clear mandate to prevent importation of counterfeit products. The civil system that we currently have in Canada to enforce trade-mark rights at the border simply does not work.

(ii) Recordation Systems

Recordation systems, whereby intellectual property owners record their rights with customs authorities having the authority and responsibility to monitor the importation of potentially infringing goods, have proven effective in combating product counterfeiting. Such systems exist in other countries, including the United States, Australia, and the European Union, and can serve as models for Canada.

(iii) Suggested Border Enforcement System

A revamped Canadian border enforcement system should incorporate at least the following elements:

- A clear prohibition on the importation of counterfeit goods into Canada;
- Express authority for the CBSA to target, detain, seize and destroy counterfeit goods either on its own initiative or at the request of an intellectual property owner;
- Intelligence sharing and investigative and enforcement cooperation between law enforcement agencies and particularly the RCMP, and the CBSA;
- Provisions for the disclosure of information and the provision of samples to intellectual property owners for purposes of determining whether detained goods are counterfeit and to enable trade-mark owners to exercise civil remedies; and
- Administrative fines for the importation of counterfeit goods.

E. Jurisdictional Issues

It is recommended that provisions be enacted to specifically deal with the following jurisdictional issues:

- Enforcement;
- Prosecution; and
- Venue.

(i) Enforcement

It should be made clear that all “peace officers” (as defined in the *Criminal Code*) have the authority to seize counterfeit products and lay charges under the trade-mark provisions. In addition, it should encourage all seizures be immediately reported to the RCMP, preferably before notice of detection is given to the owner/importer of the suspect property.

(ii) Prosecution

Authority should be expressly provided to the Federal Attorney General and the provincial attorney generals to prosecute offences under the act.

(iii) Venue

Jurisdiction should be expressly provided to provincial court judges, Superior Court judges and judges of the Federal Court of Canada, in respect of prosecution of offences. Provision similar to those currently in the *Competition Act* (section 73) should provide for prosecution in the Federal Court with appeal to the Federal Court of Appeal. Although the Federal Court has limited criminal jurisdiction, in view of its expertise in respect of intellectual property, it is likely that it would become the court of choice for prosecuting significant cases.

F. Providing Information to and Cooperation with IP Owners**(i) Information from Trade-mark Owners**

We suggest that a system be established for the provision of and access to information regarding current counterfeit products and means for identifying suspect and counterfeit products from trade-mark owners to enforcement officers in Canada. The information shared should be treated as privileged and confidential.

(ii) Information to Trade-mark Owners

Information on and/or samples of suspect products often must be disclosed to trade-mark owners as cooperation of trade-mark owners will normally be required to establish the counterfeit nature of the products in question. Provision of information as to the source and recipient of, for instance, imported products may

also be necessary to establish that the products are counterfeit. Provision should be expressly made for peace officers to provide specified information and samples of products to intellectual property owners, recognizing that the provision of customs information or information obtained through investigations may otherwise be subject to privacy constraints.

(iii) Proof of Counterfeit Nature of Products

Properly executed statutory declarations by authorized representatives of the owner of the trade-marks should be deemed to be *prima facie* evidence of the fact that the product is unauthorized. This would provide a cost effective solution to this burden of proof issue.

G. Cooperation between Law Enforcement and Trade-mark Owners

Express provisions should require consultation with the intellectual property owner before government authorities issue press releases or public announcements in respect of counterfeit products. The intellectual property owner would have no control, but should be given an opportunity to raise concerns regarding damage that may be inadvertently caused to it by publicity surrounding the counterfeiting of its products. This will take into account the damage that publicity regarding distribution of counterfeit products can do to the goodwill associated with a brand, especially when counterfeit products are distributed that raise health and safety, quality or other concerns that are not associated with the legitimate products.

H. Civil Remedies

As noted above, it is recommended that provision to be made for summary proceedings by which intellectual property owners may recover reasonable costs they have expended in investigating and assisting in prosecution of counterfeiting offences from the perpetrators of the offences or the owners/importers of the

products. This would be a civil proceeding subject to proof on a balance of probabilities in respect of the extent of the recoverable costs. Liability would flow from the conviction of an offence or the ownership or responsibility for importation of forfeited products. The onus would be on the intellectual property owner to establish the conviction, ownership or responsibility for importation, and the recoverable costs.

CACN also recommends that provisions be enacted to provide a summary civil procedure to trade-mark owners having causes of action against individuals or companies in respect of commercial dealing in counterfeit products. Civil causes of action already exist under general trade-mark law, but a separate cause of action providing significant statutory damages for proven possession for commercial distribution and commercial distribution of counterfeit products is recommended. In addition, interim and interlocutory injunctions and seizures should be available upon proof establishing the counterfeit or pirated nature of the products, regardless of an inability to prove clear irreparable harm.

VI. CONCLUSION AND SUGGESTED MINIMUM REFORM

In the context of the present review of the *Trade-marks Act* it would be possible to enact a full anti-counterfeiting regime as discussed above and that is our recommendation. However, if that recommendation is not followed, at the least, a provision similar to section 42 of the *Copyright Act* should be included in the *Trade-marks Act*. With proper drafting a criminal offence provision in the *Trade-marks Act* would overcome some existing jurisdictional and practical issues that law enforcement officers and prosecutors currently face. These issues arise because importation of counterfeit products is not an offence, the existing criminal provisions under the *Criminal Code* are outdated and, by custom, are under provincial prosecution authority.

As noted, CACN submits that urgent reform is needed to effectively deal with the manufacture, importation, distribution and sale of counterfeit products in Canada. Any revision of the *Trade-marks Act* must, if submitted, address the serious problems with Canada's enforcement against counterfeiting of trade-marks.