

CANADIAN ANTI-COUNTERFEITING NETWORK (CACN)



POSITION PAPER

***THE NEED FOR LEGAL REFORM IN CANADA TO ADDRESS
INTELLECTUAL PROPERTY CRIME***

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EXECUTIVE SUMMARY

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.

This paper expresses the views of CACN regarding the need for reform of the laws of Canada to more effectively address intellectual property (IP) crime.

The current Canadian market in counterfeit products has been estimated to be \$20 – 30 billion dollars annually. It is clear that counterfeiting and piracy have a significant adverse economic impact on individuals, companies and governments in Canada and raise concerns in respect of consumer health and safety and support of organized crime and terrorism. Further, ineffective enforcement against IP crime adversely affects Canada's international relations, including with the United States.

The current Canadian system for combating IP crime has significant problems.

Firstly, it is widely recognized that civil enforcement against counterfeiting and piracy is not effective. Due to the underground nature of the activity and the fact that the perpetrators are criminals, expensive enforcement through the civil courts is usually not practical or effective.

Secondly, there are no provisions for cost effective administrative enforcement at the borders or within the domestic market of Canada.

Thirdly, there are problems with criminal enforcement, including:

- Insufficient deterrence, including an enforcement environment with insufficient social stigma or penalties to curb the highly profitable distribution of counterfeit and pirated products;

- Lack of effective tools for border enforcement and the lack of any mandate for the Canada Border Services Agency (CBSA) to take *ex officio* action against counterfeit or pirated products;
- Federal/provincial jurisdictional issues, including that copyright offences are in the *Copyright Act* while trade-mark offences are in the *Criminal Code*;
- Inter-departmental jurisdictional issues, the primary problem being the apparent view that the RCMP is solely responsible for enforcement against IP crime;
- Lack of resources dedicated to addressing the problem of counterfeit and pirated products in Canada; and
- Lack of resources for education of law enforcement, the judiciary and the general public.

Border enforcement is particularly problematic due to the volume of goods (including the volume of counterfeit and pirated products) and the lack of resources.

In view of the foregoing, CACN is advocating for immediate reform of anti-counterfeiting/anti-piracy legislation. While improvements may be made by amending existing legislation, a new statute dealing with the problem of product counterfeiting and piracy is recommended.

An effective regime should provide a clear definition of the prohibited activity, provide for administrative seizure and destruction of counterfeit or pirated products, and full *mens rea* and strict liability offences. Border enforcement must be specifically addressed and CBSA should be provided a clear mandate to target, seize and destroy counterfeit and pirated products and to impose fines or lay charges under the statute. In addition joint forces operations (JFOs) between RCMP and CBSA at major ports should be mandated.

Provision should also be made authorizing communication between law enforcement and IP owners in order to facilitate both civil and criminal investigations. In addition, it is recommended that the statute provide a civil option whereby IP owners may proceed summarily to obtain relief in respect of counterfeiting or piracy of their products.

1. INTRODUCTION

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 members of CACN include broad-based organizations, such as Canadian Manufacturers and Exporters, the Canadian Motion Picture Distributors Association, the Canadian Recording Industry Association (CRIA), the Canadian Standards Association (CSA), Electro-Federation Canada (EFC) and I.E.Canada, the Canadian Association of Importers and Exporters; companies from a range of industries; law firms and others.

The key objectives of CACN are to:

- Lobby policy makers at the federal and provincial levels for legislative changes and increased resources to combat counterfeiting and piracy.
- Raise awareness of counterfeiting and piracy, and the negative impact on the economy and society, and facilitate training of law enforcement and others by the private sector.
- Maintain and share information regarding counterfeit cases, developments and emerging trends with law enforcement and the private sector; and develop and maintain ties with other organizations with similar objectives in Canada and internationally.

Most industrialized countries are well ahead of Canada in recognizing and addressing counterfeiting and piracy. Steps have and are being taken in many countries to strengthen legislation and increase resources directed at curbing intellectual property (IP) crime.

In Canada, there appears to be a lingering perception that IP crime is the problem of other countries. However, there is no doubt that there is a proliferation of counterfeit and pirated products in the Canadian market.

The present paper discusses the impact of counterfeiting and piracy in Canada and current problems with enforcement. It also provides recommendations for reform of the laws of Canada to more effectively address the problem.

2. THE IMPACT OF COUNTERFEITING AND PIRACY IN CANADA

Over the past decade or so there has been an explosion in the volume of counterfeit and pirated goods and the variety of such goods available on the Canadian (and international) market, including many products that pose serious threats to consumer health and safety.¹ Two decades ago, most fake goods available in Canada were t-shirts, novelty items and similar wares sold at flea markets or by itinerant street vendors. Today counterfeit and pirated products available in Canada include pharmaceutical products; software, CDs and DVDs; children's toys; electrical products; safety clothing and footwear; automobile and aircraft parts; food and beverages, including alcoholic beverages; luxury goods of all kinds; and of course, clothing, watches, and similar items. Essentially any product on the world market today can and is being counterfeited from bottled water to entire automobiles. Further, sale of counterfeit and pirated products in Canada is no longer limited to flea markets and street vendors. In fact, such products are now routinely found in up-scale shopping malls and reputable retail chains.

The fakes are also becoming increasingly sophisticated such that many phony products are almost indistinguishable from the genuine item. In February 2003, for example, Peel Regional Police seized counterfeit Epson and Hewlett-Packard computer ink and LaserJet cartridges with packaging so close to the genuine products, including security holograms

¹ See, for example, Adrian Humphreys, Flood of fakes a lethal threat, NATIONAL POST (Dec. 12, 2003); and Elizabeth Thompson, Counterfeit items pose real threat to public: Customs officers to get new powers, MONTREAL GAZETTE (Sept. 6, 2005).

and lot numbers, a police detective involved in the case could not tell the difference.² Even IP owners may require sophisticated analysis to confirm products are fakes.

The degree of organization and sophistication of the counterfeiting and piracy business is exemplified by the fact that shipments of goods are routed around the world to disguise their origin, often transiting several countries, and deliberately taking advantage of lax enforcement in certain countries or at certain ports of entry. In the late spring of 2002, for example, customs officers in Vancouver detained two shipments of counterfeit batteries. Although imported from China, the batteries were marked “Made in the U.S.A.” Several months earlier, U.S. customs officers at Long Beach, California had made a major seizure of the same type of counterfeit batteries, leading to speculation that after the U.S. seizure, the counterfeiters had rerouted their shipments through Vancouver to take advantage of Canada’s lax border enforcement.³

2.1 Economic Impact

Counterfeiting and piracy has become a huge, highly organized, global business. While there is some debate as to the reliability of any estimates of the extent of the problem, it is clear that trade in counterfeit and pirated products is significant. A widely accepted estimate is that such trade may account for 5-7% of total world trade.⁴ The International Chamber of Commerce (ICC) has recently estimated that international trade in counterfeit and pirated products exceeds US\$600 billion.⁵ In 1996, the United States International Trade Commission estimated the losses to the U.S. economy alone to be

²Media Release, Peel Regional Police, Fraud involving counterfeit computer ink and LaserJet cartridges (Feb. 7, 2003); National Law Center for Inter-American Free Trade, Transshipment and Other Threats to the Enforcement of Intellectual Property Rights in Canada and Mexico: Canada (May 30, 2003), (hereinafter *NLCIFT Study*), at 19; and Humphreys, *ibid.* Two individuals were charged with fraud over Cdn\$ 5,000.00 and passing off in this case.

³News Release, RCMP, Seizure of Counterfeit Duracell Batteries (Nov. 13, 2002); and *NLCIFT Study*, *ibid.*, at 17 and 69.

⁴OECD, *The Economic Impact of Counterfeiting, 1998*, (hereinafter *1998 OECD Study*), at 23, at <http://www.oecd.org/dataoecd/11/11/2090589.pdf> (last accessed Jan. 15, 2006). The study notes that “there is no substantial aggregated data to support the high percentages, but the figures are now accepted and used to illustrate the extent of the counterfeiting problem.”

⁵ICC, Fake goods pose major threat to business worldwide, survey reveals (Feb. 15, 2005), at http://www.iccwbo.org/home/news_archives/2005/WES_counterfeiting.asp (last accessed Jan. 15, 2006).

US\$200 billion.⁶ In an effort to obtain more reliable international data, the Organisation for Economic Co-operation and Development (OECD) began a study in 2005 to assess the economic effects of counterfeiting and piracy, as well as to analyse rising concerns over the health, safety and security threats that counterfeit and pirated products pose to consumers.⁷

The counterfeit industry in Canada was recently estimated to be worth \$20 – 30 billion dollars annually.⁸ However, the authors are not aware of any in-depth analytical studies that have been conducted to measure the impact of counterfeiting and piracy on the Canadian economy as a whole.

There is also a scarcity of studies at the industry level in Canada. One such study, prepared by the Canadian Alliance Against Software Theft (CAAST), estimated that in 2002 software theft alone cost Canada over US\$1.5 billion in lost retail sales, US\$1.4 billion in lost wages, and over US\$340 million in lost tax revenues.⁹ CRIA estimates that the value of pirated music products sold in Canada exceeds \$20 million annually.¹⁰

It appears that there may still be a perception in Canada that theft of IP rights is the problem of large multinational companies based outside Canada. Therefore, the question is asked why Canadian public resources should be expended to protect the profits of these large companies. This attitude ignores that these same companies have often made significant investments in Canada with subsidiaries that employ Canadians and that pay Canadian taxes. It also fails to recognize that Canadian companies are also the owners or

⁶International AntiCounterfeiting Coalition, White Paper, *The Negative Consequences of International Intellectual Property Theft: Economic Harm, Threats to the Public Health and Safety, and Links to Organized Crime and Terrorist Organizations* (Jan. 2005) (hereinafter *IACC White Paper*), at 4, at <http://www.iacc.org/WhitePaper.pdf> (last accessed Jan. 15, 2006).

⁷ OECD, OECD Project on Counterfeiting and Piracy at http://www.oecd.org/document/36/0,2340,en_2649_34173_35281444_1_1_1_1,00.html (last accessed Jan. 15, 2006).

⁸ Jayson Myers, *Counterfeiting Economic Impacts*, presentation to Caveat Emptor: Let the Buyer Beware, a one-day Anti-Counterfeiting Conference presented by CSA and CME (Apr. 7, 2005).

⁹ CAAST, *Canadian Software Provincial Piracy Study* (Aug. 2003), at http://www.caast.org/resources/2003_provincial_study.pdf (last accessed Jan. 15, 2006).

¹⁰CRIA, *Threat of Piracy to the Legitimate Industry*, at <http://www.cria.ca/antipiracy.php> (last accessed Jan. 12, 2006).

licensees of IP rights that are the subject of theft. The fact is that due to the huge growth in the counterfeiting and piracy business in recent years and the limitless array of products that are being copied, no company anywhere is immune.

Take, for example, Art in Motion, a company based in Coquitlam, British Columbia with 650 employees. Art in Motion is one of the leading publishers of fine art reproductions in the world. It specializes in the creation of high quality open edition reproductions, limited editions and decorative home products, and distributes its products worldwide. Fighting piracy is a constant battle for this Canadian company that regularly encounters pirated copies of its artwork and products in Canada and internationally. The company has pursued a relatively aggressive enforcement strategy, but unauthorized copies continue to be available in Canada and internationally adversely impacting the company, the Canadian artists it represents and the Canadian economy generally.

Another example is Bayly Communications, Inc., a privately held Canadian company located in Ajax, Ontario. Bayly, which has approximately 30 employees, is a leading manufacturer of network access and transmission products for telecommunications markets worldwide. In the fall of 2002, Bayly discovered that its digital multiplexers were being copied in China – where none of its legitimate product has ever been manufactured – bearing the company trademark and quality marks, as well as the legend “Made in Canada.” At the time, Bayly estimated that the unauthorized products produced in China represented up to 25% of its business. Bayly has been unable to identify the company in China that is manufacturing copies of its products or the markets in which they are being sold; the company simply does not have the resources to address this serious threat to its business.

Examples are available in any industry including toys and fine wines. Spin Master, a Toronto-based company, which is one of the top 10 global toy manufacturers, estimated that in 2003, it lost \$10 million in revenue due to cheap Chinese knockoffs.¹¹ Canadian ice wine manufacturers are facing a huge problem with fake products in export markets,

¹¹ Humphreys, *supra* note 1.

such as Taiwan and Hong Kong.¹² Anecdotal examples abound, such that there is no question that counterfeiting and piracy adversely affects all areas of Canada's manufacturing industry.

In addition, IP crime has a significant negative impact on legitimate retailers in Canada. Retailers of legitimate products are forced to compete directly against retailers of cheaper counterfeit and pirated products. In addition, the majority of profits generated from counterfeit goods are cash and relatively few counterfeiters collect or pay sales or income taxes.

Due to the clandestine nature of IP crime, it is impossible to accurately quantify economic impact. Moreover, some companies may not want to publicize a counterfeiting problem since it may adversely affect their brand. There is, however, plenty of anecdotal evidence of the serious and growing problem of IP crime in Canada. The increasing value of seizures of counterfeit and pirated goods is one indication. Unfortunately, the value of seizures is not known to the authors and, in any event, given the minimal resources dedicated by law enforcement to anti-counterfeiting and anti-piracy activities, such statistics would merely reflect the tip of the iceberg.

2.2 Consumer Health and Safety

The threat posed by counterfeit and pirated goods to consumer health and safety is undeniable. Some phony goods pose direct serious threats to consumer health, including, for instance, infant baby formula, pharmaceutical products, children's toys and clothing, automobile parts, aircraft parts, electrical devices, shampoo, foodstuffs and alcoholic beverages.

The problem was recently exemplified by the sale by a pharmacist in Hamilton, Ontario of counterfeit Norvasc, a medication used to treat high blood pressure and angina. News

¹² Julie Gedeon, Counterfeit Icewine Puts the Chill on Canadian Sales, Wine Business Monthly, Online Edition (Feb. 15, 2005), at <http://winebusiness.com/html/MonthlyArticle.cfm?dataId=36554> (last accessed

reports noted that the regional coroner was investigating five deaths of customers who had purchased Norvasc from the pharmacy.¹³

The World Health Organization estimates that counterfeit drugs account for ten percent of pharmaceuticals distributed worldwide. Counterfeit drugs have been identified having the wrong ingredients, incorrect amounts of the proper ingredients or no active ingredients at all.¹⁴ An extreme example is tablets made with boric acid and floor wax and painted with yellow lead based paint to match the legitimate product's colour.¹⁵ While it was long believed that counterfeit pharmaceuticals were limited to less developed countries, more recently it has become apparent that they have infiltrated legitimate channels of distribution in developed countries as well. In May 2003, for example, more than 18 million counterfeit "Lipitor" tablets were recalled from legitimate pharmaceutical drug supply companies in the United States.¹⁶ Over the last year Canadian law enforcement has reported a large increase in the amount of counterfeit pharmaceuticals seized.

Products bearing counterfeit certification marks that do not meet applicable standards also pose safety issues. Extension cords, power bars, lamps, seasonal decorative lighting, night lights, power tools, power converters and safety boots are examples of such products that have been seized from retail outlets in Canada, including at large retail

Jan. 12, 2006).

¹³ News Release, RCMP, RCMP seizes counterfeit heart medication at Hamilton pharmacy (June 16, 2005), at <http://www.newswire.ca/en/releases/archive/June2005/16/c2646.html> (last accessed Jan. 13, 2006); CBC NEWS, Hamilton pharmacist charged with handing out counterfeit drugs (last updated Sept. 10, 2005), at http://www.cbc.ca/story/canada/national/2005/09/10/counterfeit_drugs20050910.html (last accessed Jan. 13, 2006).

¹⁴ *IACC White Paper*, *supra* note 6, at 7.

¹⁵ *IACC White Paper*, *supra* note 6, at 8.

¹⁶ John Theriault, Vice President, Global Security, Pfizer Inc., testimony before the Drug Importation Task Force (Apr. 5, 2004), at <http://www.fda.gov/ohrms/dockets/dockets/04n0115/04n-0115-ts00062-Pfizer.pdf> (last accessed Jan. 15, 2005), at 3ff. In July 2003, Health Canada issued an advisory to consumers and health care professionals following reports that counterfeit Lipitor, a cholesterol-lowering drug produced by Pfizer, had been discovered on the U.S. market. Health Canada, Advisory: Health Canada advises public of counterfeit Lipitor® in U.S. (July 7, 2003), available at http://www.hc-sc.gc.ca/english/protection/warnings/2003/2003_53.htm (last accessed Jan. 15, 2006).

chains. Counterfeit certification marks undermine the system of standards and testing put into place by organizations such as CSA and Underwriters Laboratories (UL).¹⁷

CSA exemplifies the increasing problem with counterfeit and pirated products internationally and in Canada. CSA has had an audits and investigations group since the late 1970s. The purpose of this group is to prevent the misuse of the CSA certification mark by legally licensed manufacturers that must commit to adhere to certain manufacturing practices and standards as a condition to applying the CSA mark to their products. In the late 1990s, CSA began to encounter counterfeit products in the field and to hear complaints from manufacturers about counterfeit products bearing the CSA marks.¹⁸ With safety being CSA's paramount concern, it adopted a zero tolerance policy and has developed an aggressive anti-counterfeiting program over the past few years. Further, CSA has invested considerable resources to build alliances with law enforcement, investigative firms, law firms and other associations, and has been a driving force in the organization and operation of CACN.

Another Canadian organization that has recently become involved in the struggle against counterfeiting due to safety concerns is EFC. EFC is a broad-based organization with 200 members from the electrical, electronics, appliance and telecommunications

¹⁷ See CSA, White Paper, The Threat of Counterfeit Product Approval Marks Warrants Aggressive Detection and Enforcement Action (Oct. 2002) at http://www.csa-international.org/retailers_specifiers/counterfeit_marks/counterfeit_marks_white_paper_e.pdf (last accessed Jan. 15, 2006).

¹⁸ Examples of CSA product recalls of electrical and safety products bearing counterfeit CSA labels that have recently been issued include those for safety footwear, light strings, extension cords and power bars: APB 01-05 CSA International Announces a Safety Alert Regarding Counterfeit Scorpion, TIG and Tiger Safety Footwear Distributed by Harron Trading LTD (Jan. 12, 2005) at http://www.csa-international.org/product_recalls/search/default.asp?articleID=8362&language=English; APB 03-05; CSA International, Brite Star Manufacturing Co. and Taizhou Xinghai Lamp Industry Announce the Voluntary Recall of certain models of Yulescapes® Lighted Silhouettes (Jan. 26, 2005) at http://www.csa-international.org/product_recalls/search/default.asp?articleID=8366&language=English; CSA International Announces Important Consumer Safety Alert for "Susana" Electrical Extension Cords (July 14, 2005) at http://www.csa-international.org/product_recalls/search/default.asp?articleID=8509&language=English; CSA International Announces Important Consumer Safety Alert for "SAVINA" 6-Outlet Power Strip or Power Bar (Sept. 20, 2005) at http://www.csa-international.org/product_recalls/search/default.asp?articleID=8538&language=English (last accessed Jan. 15, 2006).

industries. The seriousness of this issue was brought home to EFC members in dramatic fashion in late 2000 when reconditioned and unsafe industrial circuit breakers bearing counterfeit CSA, UL and company labels, were found in a Quebec hospital connected to an intensive care unit.¹⁹

Other Canadian examples of the threat posed to consumers include:

- W-Five reported in March 2002 that a Norwegian plane crash in September 1989 that killed 55 passengers and crew was caused by a counterfeit bolt that had been put on the aircraft in Kelowna, British Columbia. In February 2002, it was revealed after the raid of a counterfeiting operation by police in Italy, that counterfeit Airbus parts had been in Canada.²⁰
- Several shipments of counterfeit batteries from China have been seized by RCMP and Canada Border Service Agency (CBSA) officers.²¹ The batteries contained mercury (despite packaging representing that they did not) raising environmental issues, and exploded under sustained loads.
- In December 2002, significant volumes of counterfeit Beyblade toys from China were seized by RCMP, CBSA and Vancouver City Police. In all, it is suspected that 20 containers of counterfeit Beyblades were imported into Canada in 2002 worth more than \$10 million of which 15% was seized by the RCMP.²² The counterfeit products were sub-standard and posed a choking hazard.

¹⁹ See Media Release, EFC, Warning: Misrepresented Moulded Case Circuit Breakers Sold as New – Potentially Hazardous (Nov. 15, 2000), at www.esainspection.net/pdf/fsn/01-02-fl.pdf (last accessed Jan. 12, 2006).

²⁰ CTV, W-Five, Deadly Fakes – The business of counterfeit products, original air date, Sunday, Mar. 3, 2002; *NLCIFT Study*, *supra* note 2, at p. 6, *fn.* 10.

²¹ See, for example, *NLCIFT Study*, *supra* note 2, at 16 and 69; RCMP, *supra* note 3; and News Release, Canada Customs and Revenue Agency, Large Seizure of Dangerous Counterfeit Batteries (Oct. 30, 2003).

²² News Release, RCMP, Seizure of \$130,000 Worth of Counterfeit Beyblades, (Dec. 12, 2002); *NLCIFT Study*, *supra* note 2, at 70; CBC NEWS, Don't buy black market beyblades: Hasbro (Dec. 11, 2002), at http://www.cbc.ca/stories/2002/12/05/Consumers/beyblades_021205 (last accessed Jan. 12, 2006); CNEWS, Police seize knockoff Beyblades (Dec. 11, 2002).

- In early 2003, U.S. customs officials seized 17,000 bottles of counterfeit shampoo contaminated with potentially harmful bacteria that were being imported into the United States from Canada. Health Canada Product Safety officers subsequently found and removed the same counterfeit products from drug stores in British Columbia and Saskatchewan and from hair salons in the Greater Toronto Area. On March 6, 2003, Health Canada issued a warning and a recall of the contaminated product.²³
- In testimony before the U.S. Food and Drug Administration's (FDA) Drug Importation Task Force in April 2004, John Theriault, Vice President, Global Security of Pfizer Inc., indicated that a joint investigation conducted by the RCMP and the U.S. Drug Enforcement Agency led to the discovery in April 2003 of a major counterfeiting operation in the Province of Quebec involving the manufacture of counterfeit Viagra believed to be destined for the U.S. market.²⁴
- During a blitz of the electrical appliance industry in early 2005, RCMP identified significant quantities of counterfeit products bearing certification and other marks indicating that they meet standards that the products, in fact, do not meet. Charges were laid and prosecuted in a number of cases, including the San Francisco Gifts case discussed below. The products not only made unauthorized use of the certification and other marks, but presented fire hazards.²⁵

²³ Health Canada, Warning: Contaminated counterfeit TIGI Bed Head Moisture Maniac shampoo recalled, lot 10J11373, 2003-10 (Mar. 6, 2003), at http://www.hc-sc.gc.ca/english/protection/warnings/2003/2003_10.htm (last accessed Jan. 12, 2006); *NLCIFT Study*, *supra* note 2, at 19.

²⁴ Theriault, *supra* note 16, at 9.

²⁵ News Release, RCMP, Police Charge Two Toronto Men with Selling Dangerous Counterfeit Electrical Products (Mar. 30, 2005), at http://www.rcmp-grc.gc.ca/on/press/2005/2005_mar_30_e.htm (last accessed Jan. 13, 2006); News Release, CSA, "Counterfeit Products Can Kill," Warn Experts at CSA Anti-Counterfeiting Conference (Apr. 7, 2005) at <http://www.csa-international.org/news/releases/default.asp?articleID=8415> (last accessed Jan. 13, 2006).

2.3 Organized Crime and Terrorist Links

It is now well accepted both internationally and domestically that organized crime groups are involved in IP theft. In testimony before the United States House Committee in April 2004, the Secretary General of Interpol, Robert K. Noble, noted that IP crime “is now dominated by criminal organizations, due to the relatively low level of risk and comparatively high level of profit.”²⁶

The Criminal Intelligence Directorate of the RCMP conducted a strategic intelligence assessment in 2000 into the link between organized crime and counterfeiting and piracy, and reached the conclusion that organized crime is involved in counterfeiting activities in Canada.²⁷

The Criminal Intelligence Service of Canada (CISC) has also recognized the involvement of organized crime in counterfeiting and piracy. In its 2005 Annual Report, it states that:

The Secretary General of Interpol has recently stated that, internationally, IPR crime is dominated by organized crime. It is clear, however, that the more sophisticated networks in Canada and operations have organized crime involvement at some or all points of the supply chain from manufacturing to sales.²⁸

Cases illustrating the involvement of organized crime groups in counterfeiting and piracy in Canada include the following:

²⁶ Ronald K. Noble, Secretary General of Interpol, The Links between intellectual property crime and terrorist financing, text of public testimony 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 Jan. 15, 2006).

²⁷ RCMP, Criminal Intelligence Directorate, Assessment of Commercial Scale Criminal Copyright Piracy and Trade-Mark Counterfeiting in Canada (Unclassified), (Oct. 2000) at http://www.rcmp.ca/crimint/copyright_piracy_e.htm (last accessed Jan. 15, 2006).

²⁸ CISC, Annual Report on Organized Crime in Canada 2005, at http://www.cisc.gc.ca/annual_reports/annualreport2005/intellectual_property_2005_e.htm (last accessed Jan. 15, 2006).

- In January 2002, Vancouver City Police seized over 5,000 pirated DVDs from one video store, and 1,700 from another in Vancouver's Chinatown. The seized DVDs included unauthorized copies of numerous movies, some that had not yet been released, and were apparently imported from Asia. The owner of one of the video stores was alleged to be the second largest leader of organized crime in Vancouver. In May 2003, Vancouver City Police returned to both locations that they had previously raided and seized additional pirated videos, as well as unlawful hardcore porn videos.²⁹
- In October 2002, Peel Regional Police officers arrested six Italian citizens involved in a fake Versace leather jacket scam. Police seized fake leather jackets with counterfeit Versace trade-marks at an industrial unit in Woodbridge, Ontario. Over 50 individuals were identified as being connected to the counterfeiting activity as was the Sicilian mafia based in Naples. There was also evidence that the same organization had operations in New York City and Australia.³⁰
- In 2003, in a series of raids in the Vancouver and Toronto areas, customs and police officers seized over 250,000 cartons of counterfeit cigarettes that were being smuggled into Canada. The seized goods, which presented a health and safety risk for consumers and represented millions of dollars in lost provincial and federal tax revenues, were believed to be linked to organized crime.³¹

²⁹ CISC, Annual Report on Organized Crime in Canada 2002, at http://www.cisc.gc.ca/annual_reports/documents/annual_report_2002.pdf (last accessed Jan. 15, 2006), citing GLOBAL BC, Biggest DVD Seizure in Canada, (Jan. 31, 2001 [sic]), and VANCOUVER SUN, Counterfeit DVD Seizure Sets Record (Feb. 2, 2002). The latter article is available at <http://www.cmpda.org/press/020202.html> (last accessed Jan. 12, 2006); *NLCIFT Study*, *supra* note 2, at 10.

³⁰ Media Release, Peel Regional Police, Leather jacket scam (Oct. 8, 2002), at <http://www.ripoffreport.com/reports/ripoff69883.htm> (last accessed Jan. 12, 2006); *NLCIFT Study*, *supra* note 2, at 11.

³¹ News Release, RCMP, \$2.6 million in Counterfeit Cigarettes Seized (Dec. 4, 2003), at http://www.rcmp-grc.gc.ca/on/press/2003/2003_dec_04_e.htm (last accessed Jan. 12, 2006); Nathanson Centre for the Study of Organized Crime and Corruption, Organized Crime in Canada: A Quarterly Summary, July to September 2003 at http://www.yorku.ca/nathanson/CurrentEvents/_overlay/July_to_September_2003.htm#Smuggling (last accessed Jan. 12, 2006).

There is also growing evidence that counterfeiting and piracy are linked to terrorist activities. In his testimony before the United States House Committee on International Relations, the Secretary General of Interpol cited several examples demonstrating the link between IP crime and terrorist financing in Northern Ireland, Kosovo and Chechnya. He also referred to evidence of IP crime being used to finance the activities of North African radical fundamentalist terrorist groups operating in Europe, Al-Qaeda and affiliated groups, and Hizbullah. The expectation is that IP crime will become an even more important source of funds for terrorist groups in the future.³²

Examples of IP crime having suspected links to terrorist activities in Canada include:

- In December 2000, Montreal City Police raided the home of a Lebanese individual suspected of stealing art. During the raid, Montreal police seized not only stolen artwork, but also weapons and \$1 million of counterfeit Versace products. It was believed that the revenues from these activities were being funneled to a Lebanese fundamentalist organization.³³
- Kessler International issued a press release in October 2001 indicating that an Alberta resident who was one of three individuals detained by Canadian immigration authorities on immigration charges and under investigation by both the RCMP and the FBI for links to the September 11th terrorist attacks, was also wanted in the United States on charges of trafficking in counterfeit goods. The goods were powdered baby formula that did not meet the health standards of the FDA.³⁴
- During the first half of 2002, Toronto Police Services executed a search warrant at an apartment above a strip mall where they discovered six Sri Lankan individuals who were making counterfeit t-shirts and sweatshirts. Two of the individuals

³² Noble, *supra* note 26.

³³ *NLCIFT Study*, *supra* note 2, at 13.

arrested were in Canada illegally and were reported to Canadian immigration authorities; two others had been denied entry into the U.S. as a result of suspected terrorist links.³⁵

2.4 Canada's Trade Relations

By international agreement, Canada has agreed to provide effective criminal enforcement against willful trade-mark counterfeiting and copyright piracy on a commercial scale, as well as to implement border measures to prevent the importation of counterfeit and pirated goods. For example, both the World Trade Organization Agreement on Trade-Related Aspects of Intellectual Property Rights ("TRIPS") and the North American Free Trade Agreement ("NAFTA"), require criminal enforcement and border measures. While Canada has arguably technically complied with the text of the treaties, by not providing the necessary resources or effective enforcement tools, it has fallen far short of satisfying the spirit of the provisions. This failure to effectively comply with its international obligations is an irritant in Canada's trade relations, and especially with the United States.

Canada has been included on the United States Trade Representative's (USTR) Special 301 Watch List for the past several years for failure to implement its international obligations or to take effective enforcement action against counterfeit and pirated goods, especially at the border. The International AntiCounterfeiting Coalition (IACC), which submits a report each year to the USTR regarding countries that should be monitored for failure to adequately and effectively protect IP rights, recommended in its most recent report in February 2005 that special attention be paid to Canada by designating it a "Priority Foreign Country." The IACC concluded its section on Canada by stating that:

The actions of the Canadian Government defy logic. Canada participates in INTERPOL's Intellectual Property Crime Action Group and believes

³⁴ Press Release, Kesler International, Individuals Involved in September 11 Terrorist Attacks Linked to Sale of Counterfeit Products (Oct. 22, 2001), at <http://www.investigation.com/press/press22.htm> (last accessed Jan. 12, 2006); and *NLCIFT Study*, *supra* note 2, at 12.

³⁵ *NLCIFT Study*, *supra* note 2, at 13.

that more enforcement must take place to combat trans-national crime. However, it takes no concrete Government action to enact strong and effective legislation that would instruct and empower its enforcement authorities to combat intellectual property theft either at its borders or within the domestic market.

...

The continued lack of effective enforcement in Canada signals the Government's lack of seriousness to acknowledge the existence of organized crime involved in the manufacture, distribution and sale of counterfeit and pirate products and the international involvement of such groups in this trade. Moreover, Canada's lack of action is evidence of an attitude that it is better to leave to others the difficult work of combating this global problem. During the past two years, we have seen new European Union directives and regulations. In addition, China has recently issued new judicial interpretations. But, in Canada, we have seen no such effort to improve its enforcement regime.³⁶

While not designating Canada a Priority Foreign Country in its 2005 Special 301 Report, USTR did include Canada once again on the Special 301 Watch List and indicated that it would also carry out an Out-of-Cycle Review of Canada in early 2006, together with such countries as Russia, Indonesia and the Philippines.³⁷

3. CURRENT PROBLEMS WITH ENFORCEMENT

As discussed, counterfeiting and piracy raise concerns with respect to the economic losses to industry and government, consumer health and safety, organized crime and terrorism, as well as Canada's compliance with international obligations in respect of IP protection and trade. It is an activity in respect of which effective enforcement and deterrence are clearly required. Unfortunately, the statutory framework and enforcement environment in Canada are such that there is little to promote a societal stigma against dealing in counterfeit or pirated products. There are no cost effective enforcement tools

³⁶ IACC, Submission of the International AntiCounterfeiting Coalition to the United States Trade Representative, Special 301 Recommendations (Feb. 11, 2005), at www.iacc.org/2005-301.pdf (last accessed Jan. 12, 2006).

³⁷ The USTR's 2005 Special 301 Report is available at http://www.ustr.gov/Document_Library/Reports_Publications/2005/2005_Special_301/Section_Index.html (last accessed Jan. 15, 2006).

and there is inadequate deterrence to make a significant impact on the profitability of dealing in such products.

The present analysis centres on enforcement against unauthorized manufacture and distribution of counterfeit products, and pirated copies of copyright works or other forms of IP. The malfeasance in the former is fraud and deception; while in the latter, it is the theft of the intellectual property.

The primary aim of the analysis is to consider how to most effectively deal with the problem of counterfeit and pirated products. It is clear that it is more effective to seize products prior to their distribution in the marketplace and, to the extent the products are imported, to seize them at the border. Unfortunately, as discussed further below, current problems include a lack of effective administrative or civil tools for seizure and forfeiture of counterfeit or pirated products at the border. Further, offences in respect of trade-mark counterfeiting are found in the *Criminal Code* and, while it is an offence under the *Copyright Act* to import infringing copies of copyright works, there is no similar provision in respect of importation of products displaying unauthorized reproductions of trade-marks. In addition, while there are provisions making it a criminal offence to manufacture or commercially distribute counterfeit or pirated products in Canada, some of the provisions are outdated and difficulties are encountered in obtaining convictions for a number of reasons, including problems proving the requisite *mens rea*.

The basic problem that has to be addressed is how to effectively curtail the market in counterfeit and pirated products without unduly curtailing individual rights, or freedom of competition. The interface between criminal and civil enforcement must also be considered. In other words, what activities should be treated as criminal, quasi-criminal or administrative offences, and what should be left to IP owners to address?

Established IP statutes and jurisprudence constitute a body of civil law in which the right of individual traders to a free market is balanced against the statutory and common law rights of the owners of IP. However, the checks and balances of the civil system are not

efficient for dealing with blatant copying and fraud by individuals operating in an underground market who do not respect the laws of the land.

This section of the paper considers problems with the current product anti-counterfeiting and anti-piracy enforcement régime in Canada, followed by a consideration of the civil/criminal enforcement interface.

3.1 Digital Distribution

As a preliminary point, one issue that requires consideration is how to deal with digital distribution of unauthorized copies of copyright works and works including neighbouring rights (rights of producers and performers) over the internet. However, an in-depth analysis of that issue is beyond the scope of this paper. Further, reform in respect of the civil remedies under the *Copyright Act* to deal with these issues was brought before Parliament in 2005 in the form of Bill C-60, although the proposed legislation died on the order paper when the federal election was called in December 2005. It is likely, however, that similar legislation will be introduced when the new government takes office. In part, the amendments would implement the World Intellectual Property Organization (WIPO) Copyright Treaty and the WIPO Performers and Phonogram Treaty. The legislation included provisions prescribing a right in respect of “making available” of works, protection against alteration or deletion of “rights management information” and sanctions directed against circumvention of piracy prevention technology. It also provided a notice and notice system for ISP notice to customers of complaints regarding copyright infringement. However, it did not purport to address the problems with IP crime enforcement in Canada.

With respect to enforcement issues, a report by Heritage Canada and Industry Canada made as part of the ongoing copyright reform process entitled “Supporting Culture and

Innovation: Report on the Provisions and Operation of the Copyright Act,”³⁸ that was part of the process leading to Bill C-60 includes a discussion of the possibility of setting a minimum value of pirated products for criminal penalties to be imposed under the *Copyright Act*, and of enacting definitions distinguishing between infringing and pirated products. The report also discusses the possibility of expressly extending the definition of infringement to cover electronic distribution and the need to consider amending the provisions in respect of statutory damages available under the *Copyright Act* in civil proceedings. However, Bill C-60 did not deal with any of these issues.

In view of the ongoing developments and governmental action in respect of digital copyright issues, the recommendations herein generally exclude specific provisions dealing with issues raised in respect of distribution of pirated copyright works over the Internet.

3.2 Civil Enforcement

Manufacture or distribution of counterfeit and pirated products is generally an actionable breach of IP rights of the owner. Liability is established through proceedings in the Federal Court of Canada or the superior courts of the provinces. The rights and the infringement must be proven, and liability is subject to defences of, *inter alia*, non-infringement and invalidity. Knowledge by the defendant that the activity infringes is not required to found liability. Remedies include destruction of offending products and materials, injunctions and damages or profits from the infringing activity.

In the case of counterfeit or pirated products, civil enforcement is seldom effective. Civil enforcement is expensive, and due to the nature of the average counterfeiting or pirating operation, there are limited records, it is difficult to prove significant damages or profits, only stock in hand of the counterfeit or pirated products is seized, and there will often be little or no realizable assets in the hands of the companies or individuals named as

³⁸ Industry Canada and Heritage Canada, Supporting Culture and Innovation: Report on the Provisions and Operation of the Copyright Act (Oct. 2002), at <http://strategis.ic.gc.ca/epic/internet/incrp->

defendants in any proceedings. Experience shows that there are few situations where cost effective deterrence can be realized through civil proceedings.

The problem has been addressed to some extent with respect to copyright piracy by providing for summary proceedings against copyright infringement and for statutory damages.³⁹ However, the provisions are seldom utilized against copyright pirates, likely due to the fact that the ability to collect damages from perpetrators of IP crimes is often limited and the prescribed statutory damages are assessed on a “per work” basis up to a maximum of \$20,000, which likely would not cover the cost of investigating and proceeding against a pirate. There are no similar provisions available in respect of trade-mark counterfeiting.

Thus, providing for significant statutory damages and facilitating summary seizure and destruction of counterfeit or pirated products at the expense of the manufacturer, importer or distributor of the products in obvious cases are recommended, as discussed further below.

3.3 Criminal and Administrative Enforcement

Trade-mark forgery and copyright piracy have been offences in Canada under the *Criminal Code* and the *Copyright Act* respectively for many decades. Depending on the case, other offences, such as fraud, conspiracy, distribution of hazardous products and using material false descriptions or representations on labeling, may also be committed in the manufacture and/or distribution of counterfeit or pirated products. Border procedures are provided for in the *Copyright Act*, the *Trade-marks Act*, and the *Integrated Circuit Topographies Act*. Of note are the lack of penal provisions in the *Trade-marks Act* and the lack of provisions prohibiting the importation of counterfeit or pirated products in the *Customs Act* or the *Customs Tariff*.

prda.nsf/en/rp00863e.html (last accessed Jan. 13, 2006).

³⁹ See *Copyright Act*, ss. 34(4) and 38.1

The reality of the current situation is that law enforcement officers are forced to be creative in the charges that they lay. The requisite *mens rea* is difficult to prove under both the *Copyright Act* and the *Criminal Code*, and the *Criminal Code* provisions are outdated and underutilized by prosecutors. Charges under the *Copyright Act* are pursued in situations where valid copyrights associated with the products can be proven and the requisite *mens rea* can be established on objective evidence. If there are no valid copyrights or the requisite intent cannot be proven, charges may be laid under other statutes providing strict liability, such as the *Consumer Packaging and Labeling Act*, but such charges will normally only yield minor fines as penalties and do not carry the stigma of criminality. The end result is that charges are usually not laid in respect of distribution of counterfeit or pirated products, and even when they are, cases seldom proceed to trial.

Thus, while criminal provisions currently exist, in practice, effective enforcement has proven problematic for a number of reasons, including:

- Lack of effective criminal, quasi criminal or administrative deterrence
- Lack of effective tools for border enforcement
- Jurisdictional issues
- Lack of resources
- Lack of education of the judiciary, prosecutors and the public.

3.3.1 Lack of Effective Deterrence

The lack of effective criminal, quasi-criminal or administrative deterrence is exemplified by recent cases, including two that were heralded as precedent setting in light of the significant penalties imposed.

In the first, *R. v. AFC Soccer*,⁴⁰ the accused pleaded guilty to charges under s. 42 of the *Copyright Act* stemming from sales of counterfeit soccer jerseys and other clothing by a sole proprietor. Over 1000 counterfeit items, as well as records evidencing sales of a minimum of \$180,000 worth of counterfeit clothing products, were seized by the RCMP. By agreement, the products seized were ordered delivered to the IP owners for destruction. It was further agreed that computers seized would be returned to the perpetrator. The prosecution argued for a fine in the range of \$50,000 to \$70,000, while the defence argued that a fine of \$2500 to \$3500 would be appropriate. The judge, noting that there were few precedents, proceeded from first principles. Taking into consideration that the accused clearly had knowledge of the unlawful activity since he had directed the manufacture of false labels, the judge imposed a fine based on a percentage of proven gross revenues. Despite an estimated net profit of between \$60,000 and \$120,000, the judge imposed a fine of 25% of proven gross revenues, namely \$45,000. The conviction was appealed by the accused and was overturned by the Manitoba Court of Appeal since charges against the individual sole proprietor had been dropped in favour of charges against the business, which had no legal personality.

In the second case, San Francisco Gifts Ltd., an Edmonton company, pleaded guilty to nine counts under the *Copyright Act* and was fined \$150,000 for selling counterfeit merchandise, including counterfeit lamps marked with fake labels indicating that they had been tested by UL. RCMP officers believe that the lamps were carried at the company's more than 80 stores across the country. Raids were carried out and counterfeit lamps and other items seized in Ontario, Manitoba, Saskatchewan and Alberta. Testing of some of the lamps confirmed that they were faulty and presented a fire hazard. In the end result, the fine was agreed to and charges were dropped against the owner of the company. It is interesting to note that an ex-employee of the store indicated that many of the lamps had been sold ("it was a very popular item").⁴¹

⁴⁰ *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.).

⁴¹ *R. v. San Francisco Gifts Ltd.* (unreported decision of the Man. Prov. Ct., Dec. 30, 2004), reported National Post, Friday Dec. 31, 2004.

The two cases exemplify a number of the problems that presently exist with the Canadian anti-counterfeiting régime. First, it may be noted that all the charges were laid under the *Copyright Act*. That is despite the fact that the real complaint was unauthorized use of trade-marks. This problem arises due to three primary reasons:

1. Unlike the *Copyright Act*, there are no criminal provisions in the *Trade-marks Act*, criminal trade-mark provisions being included instead in the *Criminal Code*. Further, the primary IP theft enforcement agency, the Federal Enforcement Branch of the RCMP, and the primary prosecutors, the Federal Department of Justice (DOJ), generally deal with statutes within federal jurisdiction. While they have concurrent jurisdiction with provincial law enforcement agencies and prosecutors to enforce the *Criminal Code*, by custom, it is generally left to provincial authorities. This issue is discussed further below.
2. The trade-mark offences in the *Criminal Code* do not effectively address the current reality in respect of distribution of counterfeit products. A number of the provisions (ss. 406, 407, 409 and 410) are directed against manufacture of products reproducing trade-marks, when in fact the vast majority of counterfeit products distributed in Canada are imported. Further, the provision specifically directed against the distribution of counterfeit products (s. 408(a)) has been construed by the courts to require intent to sell the products to purchasers who believe the products are legitimate. Accordingly, the provision is ineffective against distributors since retailers often purchase from distributors knowing that the products are counterfeit.
3. At least partly due to the foregoing problems, prosecutors are reluctant to prosecute for commission of the trade-mark offences.⁴² As a result, there is a lack

⁴² For instance, in April 2002, Toronto Police Services seized a half trailer load of counterfeit luxury goods at a warehouse in Brampton, Ontario. The seized items included apparel, sunglasses, purses, watches, and footwear, bearing counterfeit trademarks such as Prada, Louis Vuitton, Nike, Hermes, Fendi, Tod's, Giorgio Armani, Gucci, Versace, Chanel and Ralph Lauren. At the time, it was the largest seizure of counterfeit goods in Canadian history with an estimated value of \$7 million (based on the retail value of the genuine products). Two individuals were arrested and charged with 50 counts of passing off under the

of precedent and a lack of expertise in the provisions among prosecutors in Canada. For instance, s. 408(b) makes it an offence to make material false descriptions regarding wares or services, including the country of origin. While that offence was apparently committed in the San Francisco case, no charges were pursued under the *Criminal Code*. Further, offences of more general application, such as fraud, may be committed in the distribution of counterfeit or pirated products, but charges are seldom laid for such offences.

Second, the cases illustrate the lack of criminality associated with the act of distributing counterfeit or pirated products. Charges under the *Criminal Code* were not laid in either case, despite the safety issues in the San Francisco prosecution. Further, in both cases, charges were dropped against the individual perpetrators, presumably as part of a plea bargain (and in the AFC case despite the fact that there was no other legal entity to charge). When one considers that manufacture and international distribution require organization and that there will normally be numerous people involved in the commission of the offence, the main purpose of which is for the financial benefit of the people involved, the need to emphasize criminality should be clear (see *Criminal Code*, s. 467.1). In fact, as noted, the international market in counterfeit or pirated products is an organized and significant underground market that has been tied to organized crime and terrorist organizations.

Third, the cases demonstrate that there is insufficient consideration given by the courts to the cost to the government and IP owners of investigating and prosecuting the perpetrators. At the least, consideration should be given to ordering that perpetrators pay the hard costs resulting from the seizure, storage and destruction of the products. The present reality is that CBSA and the RCMP do not have sufficient storage facilities available for products seized or sufficient discretionary funds to cover storage and destruction costs. The issue is particularly problematic when the items seized are toxic or

Criminal Code. The charges were withdrawn because the provincial Crown prosecutor claimed that there was no reasonable prospect of conviction and that charges should have been brought under federal legislation, namely the *Copyright Act*. *NLCIFT Study, supra* note 2, at 51.

environmentally unfriendly. The RCMP tends to look to IP owners for assistance with respect to storage and destruction. These costs should not be borne by the IP owners, particularly where the perpetrators have sufficient funds to cover the costs.

Fourth, the cases illustrate the lack of sufficient economic deterrence resulting from prosecution of IP crimes in Canada. Considering the AFC case, the records being reviewed had been tampered with and no doubt did not reflect the total sales of counterfeit products. Considering the profitability analysis, it is likely that, even if the case had not been overturned on appeal, AFC Soccer would have profited overall from the activity. The authors have insufficient details of the San Francisco prosecution to comment on the overall profitability; however, subsequent newspaper reports indicated that significant numbers of the counterfeit products had been distributed in the community. Reassurance by UL was required as damage control in view of the press on the case since counterfeiting of its marks significantly diminish their reliability and therefore their value. Further, media reports indicated that the accused company was under bankruptcy protection and one can query whether the fine will ever be paid. As noted, charges against the individual perpetrator were dropped.⁴³

It also must be remembered that these cases are the high watermark in respect of penalties imposed on product counterfeiters and pirates in Canada. They are isolated precedents of Canadian courts imposing significant fines in respect of dealings in counterfeit products. There are also a few precedents where fines have been imposed for distributing pirated copies of copyright works, such as films and computer programs. However, in the majority of cases investigated by law enforcement agencies in Canada, no charges are laid, and where they are, fines imposed, if any, are minor. Further, the costs of the investigations are significant, as can be the costs of storage and destruction of the counterfeit or pirated products seized. Significant court and Crown resources are required for prosecution of any charges laid, and to obtain orders for the early destruction of counterfeit or pirated products that are seized.

⁴³ Global TV, Edmonton, Calm Network One, reports Jan. 3 and 4, 2005.

It is also worth noting that indictable offences under the *Copyright Act* are excluded offences under proceeds of crime legislation. In other words, law enforcement is not able to pursue proceeds of copyright crimes. While the same is not true for trade-mark offences under the *Criminal Code*, as discussed, the other problems with those offences preclude regular use thereof by law enforcement. Similarly, while there is provision for restitution where convictions are entered under the *Copyright Act* or the *Criminal Code*,⁴⁴ applications for restitution are brought by prosecutors (or restitution may be awarded of the courts own volition), and federal prosecutors at least will not even entertain the possibility of seeking restitution for IP crimes.

In short, under the current Canadian system, there is clearly insufficient criminal, quasi-criminal or administrative deterrence to significantly curtail the distribution of counterfeit and pirated products. The cost of enforcement to government and IP owners is often significantly higher than to perpetrators, and the penalties imposed, if any, are insufficient to act as real deterrence against the highly profitable distribution of counterfeit and pirated products. The result is that counterfeit and pirated products are generally sold in Canada with impunity. Recognizing the high mark-ups available, the damage to the IP rights, the risk to health and safety and the extent to which distribution of counterfeit and pirated products is currently occurring in Canada, significantly higher penalties, including jail time in egregious cases, are clearly required. There should also be no bars to law enforcement pursuing proceeds of IP crime whenever appropriate. Further, steps should be taken to minimize the reliance on criminal penalties in less serious cases. Administrative seizure and fines should be available to promote cost effective enforcement in cases where the products in issue are clearly counterfeit or pirated, as discussed further below.

3.3.2 Lack of Effective Border Enforcement

Obviously, dealing with counterfeit and pirated products is much more problematic once disbursed into the market. Stopping the products at the source would be most effective, but this requires the cooperation of foreign governments. This can be highly problematic

⁴⁴ *Criminal Code*, s.738

when dealing with major source countries around the world whose economies are dependent on counterfeiting and piracy. The second most effective means is to stop the imported counterfeit and pirated products at the border. However, the CBSA and its predecessors, the Canada Customs and Revenue Agency (CCRA) and Revenue Canada, Customs have resisted becoming actively involved in the enforcement of IP rights at the border.

In 1994 Canada implemented changes to the *Trade-marks Act* and the *Copyright Act* to establish border enforcement measures in accordance with obligations under TRIPS and NAFTA.⁴⁵ However, the provisions enacted impose no obligation on Canadian customs authorities to take *ex officio* action in respect of the importation of counterfeit and pirated goods. Instead IP owners are required to obtain a court order directing customs authorities to detain specified shipments of infringing goods. Unfortunately, the information that IP owners must provide to obtain an order is generally not available to them given the clandestine nature of counterfeiting and piracy activities. Further, the provisions require expensive court proceedings both to order the detention and ultimately to determine the legality of the importation. As a result, the border enforcement measures are simply not used. With no clear authority or mandate under the *Customs Act* to seize counterfeit and pirated goods, CBSA takes the position that it can only take action in response to court orders. The practical result is that Canada has no effective civil or administrative system for enforcing IP rights at the border.

In 2000, the RCMP took the initiative to try to improve border enforcement of IP rights through criminal enforcement. It negotiated a protocol with the CCRA in which it was recognized that customs officers did have authority to seize counterfeit and pirated goods in their capacity as peace officers under section 489(2) of the *Criminal Code* even where no customs or excise offences were committed. The protocol makes clear, however, that CBSA will only take action when it has clear intelligence information from the RCMP, other federal government departments or local police and a clear indication from the RCMP (or local police) that they intend to prosecute.

⁴⁵ *Trade-marks Act*, s. 53.1 and the *Copyright Act*, s. 44.1

The RCMP has also designated officers at each of the major ports of entry as points of contact for criminal IP enforcement. Some seizures are made at the border in situations where customs officers detect counterfeit or pirated products in the course of carrying out their duties under the *Customs Act*. CBSA officers will only carry out the seizure of such goods if they are also the subject of offences under the *Customs Act*. If not, the RCMP (or local police) may seize goods brought to its attention by CBSA where copyright or *Criminal Code* offences are involved.

Recently the RCMP and CBSA have established joint forces operations (JFOs) in Montreal and Toronto that are focused on combating IP crime. While the JFOs have realized some success, they have insufficient dedicated resources to have a significant impact on the importation of counterfeit and pirated products.

Given that most counterfeit and pirated products are imported into Canada, the CBSA is in the best position to assess the seriousness of the problem in Canada. However, because it does not seize counterfeit and pirated goods under the *Customs Act*, the CBSA generally does not keep statistics with respect to shipments of counterfeit and pirated goods that are detected. Since the information is not recorded, counterfeit and pirated goods are not taken into consideration when CBSA conducts risk assessments or when it allocates resources. Thus, except in the case of the JFOs referred to above, the CBSA does not dedicate any significant resources to IP enforcement at the border. In fact, customs officers in charge of ports of entry across Canada risk losing resources if they pay too much attention to this problem.

Although CBSA has no clear mandate and therefore does not target shipments of counterfeit and pirated goods, front line customs officers regularly detect shipments of such products. The problems arise once the infringing products are discovered. If there is no order under the *Copyright Act* or the *Trades-mark Act* for detention, and no violation of the *Customs Act*, shipments detained are turned over to the RCMP or local law enforcement for seizure (even though under the protocol and the provisions of the

Criminal Code, customs officers could make the seizure). CBSA does not itself assume responsibility for seizing, storing, or destroying counterfeit and pirated goods detected at the border. However, the RCMP and local police have limited resources to pursue IP crimes and to store and destroy counterfeit or pirated goods seized. If the RCMP or local police cannot respond when customs officers discover counterfeit or pirated goods, the goods may simply be released.

The problem of storage costs is exacerbated by a lack of effective provisions or resources in Crown prosecutors' offices for bringing applications for early destruction of seized products. The result is that seized products may have to be stored for years until trial of a perpetrator is completed.

Thus we have a situation in Canada where the only enforcement of IP rights at the border is through criminal enforcement and yet we have few law enforcement and prosecutorial resources to dedicate to the task. CBSA, the agency in the best position to lead the fight against counterfeiting and piracy, is relegated to a limited and ancillary role. Accordingly, CBSA does not dedicate any significant resources to implementing an effective program for detecting, detaining and seizing counterfeit or pirated products.⁴⁶

In view of the foregoing, the primary problems that need to be addressed to improve enforcement of IP rights at the border include:

1. The complete reliance on criminal enforcement at the border and the lack of any statutory mandate for customs officers to seize counterfeit or pirated products;

⁴⁶ In September 2005, Roy Cullen, then parliamentary secretary to Public Safety and Emergency Preparedness Minister Anne McLellan, stated in an interview with a Montreal Gazette reporter that he was working with several other departments, including Justice, Industry and Canadian Heritage, on a proposal to go to cabinet that fall addressing border enforcement of IP rights and the tools available to customs officers. However, whether the proposal did go to cabinet and the details thereof are not known. Thompson, *supra* note 1.

2. The lack of dedicated resources within CBSA;
3. The lack of dedicated resources within the RCMP, local police and prosecutors to handle counterfeit and pirated products identified and detained by CBSA; and
4. The lack of formalized programs, including training programs, in respect of counterfeit and pirated products at CBSA.

3.3.3 Jurisdictional Issues

As noted, primary responsibility for IP crime enforcement is currently in the hands of the Federal Enforcement Branch of the RCMP. The branch deals with enforcement of federal statutes, including the *Copyright Act* and has authority to lay charges under the *Criminal Code*. However, as noted above, federal prosecutors generally do not prosecute matters under the *Criminal Code* and provincial and local law enforcement and prosecutors, generally do not lay charges or prosecute under the *Copyright Act*. Further, criminal prosecutions, including for IP offences, are heard by provincial courts and not by the Federal Court of Canada, the court having the most expertise in IP matters in Canada.

In addition to the federal/provincial jurisdictional issues, issues also arise between federal agencies, including in particular, CBSA and the RCMP as discussed in the preceding section of the paper.

Jurisdictional issues may also arise when the RCMP uses other federal statutes in their enforcement efforts. Other federal departments responsible for the statutes in question may need to be involved or consulted, and may not agree that there is any mandate under the applicable legislation to enforce against counterfeit or pirated products. For instance, federal officials dealing with the *Consumer Packaging and Labelling Act* have

communicated to the RCMP that they do not believe that use of that statute against counterfeiters or pirates is appropriate.

The end result is that effective enforcement is curtailed. The RCMP, which has the mandate and the expertise for effective criminal enforcement, does not have sufficient support including, in particular, in respect of border enforcement and prosecution.

3.3.4 Lack of Resources

Generally, as noted, significant monetary resources are required in order to effect seizure, storage and destruction of counterfeit and pirated products. In addition, there is an obvious need for dedicated manpower among enforcement officers and prosecutors.

As was evident from the foregoing, it is the Federal Enforcement Branch of the RCMP that has the primary mandate for enforcement against IP theft. However, in the past, even the RCMP was unwilling to dedicate significant manpower or monetary resources to dealing with the issue. More recently, the RCMP has dedicated manpower with the result that seizures have increased, but problems immediately arose in respect of locating sufficient storage for products seized and covering the costs of destruction thereof. For instance, the Milton Detachment of the RCMP has encountered significant difficulties with respect to storage (products have been stored in the basement of their facilities and in the parking lot and available federal warehouse facilities have also been filled). Further, until very recently, there were no dedicated personnel in the Federal Prosecution Branch of the DOJ and difficulties were encountered in finding federal or provincial prosecutors willing to take steps necessary to deal with seizure and destruction orders, which must be obtained from the courts. Further, it was only in exceptional cases that particular prosecutors would be dedicated for the entirety of a prosecution for IP offences.

While the problem of a lack of dedicated personnel has been somewhat alleviated in the past year or so with respect to the RCMP and federal prosecutors, there is still a palpable shortage that manifests itself in inability of law enforcement to take effective action against any and all products identified as being counterfeit or pirated. Further, the lack of

dedicated resources within the CBSA is problematic. That agency is, as noted, best positioned to efficiently deal with the problem at least in respect of imported products but, as noted, does not have a mandate or a system that will facilitate resource designation for the task.

Generally, it is submitted that there has been insufficient recognition of the need for dedicated monetary and personnel resources to combat IP crime in Canada.

3.3.5 Lack of Education

While IP is becoming more prevalent in our society and brand awareness is a significant market force, there remains a lack of understanding of IP among the general public, and among prosecutors and the judiciary. In order to effectively deal with the problem of IP theft, the issues must be understood and the associated risks and detriments must be communicated to prosecutors, the judiciary and the public.

In addition, in view of the sophistication of many counterfeit and pirated products, effective sharing of information among law enforcement agencies and IP owners is essential, both domestically and internationally. Regular effective training for customs and RCMP officers and effective collection, sharing and management of data is required to facilitate the identification and seizure of counterfeit and pirated products.

3.4 The Interface Between Criminal and Civil Enforcement

In examining the interface between criminal and civil enforcement, consideration must be given to the two types of malfeasance involved: counterfeiting (fraud) and piracy (theft of IP).

Civil trade-mark law specifically deals with marks used for the purpose of distinguishing the products or services of a person, and manufacture or distribution of counterfeit products generally will infringe civil trade-mark rights. However, as noted, as a practical matter civil enforcement is not effective against criminal trade-mark counterfeiting.

Criminal enforcement, on the other hand, is not well adapted to settling disputes between competing traders. Further, one has to consider issues of availability of government resources and free competition.

With respect to manufacture or distribution of counterfeit products, 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 or if there is a clear theft of an existing trade-mark. Thus criminal enforcement, including seizure and destruction of products by public officers, 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 confusion is only arguable. The unlawful nature of counterfeit products should not be dependant on the intent or knowledge of the person in possession of the wares, but the guilt of that person of any offence should be (subject to willful blindness).

With respect to reproduction or distribution of at least pirated copyright works and integrated circuit topographies, it is submitted that criminality should be established when it is proven that there has been unauthorized copying of the protected work. Civil copyright law specifically deals with the right to reproduce works and reproduction or distribution of unauthorized copies generally will infringe copyright. Again, criminal enforcement including seizure by public officers should be reserved for products constituting unauthorized identical copies of all or a substantial part of a work. However, criminality attaching to such products should be absolute and they should be subject to seizure and destruction whenever encountered. Criminal penalties imposed against individuals, on the other hand, should be dependent upon commercial dealing with knowledge of the fact that the product is an unauthorized copy of a work. Further, criminality must be subject to the IP in question being valid. Taking of unsubstantial excerpts of works or works that are only arguably copies should be left to civil enforcement.

4. RECOMMENDED REFORMS

From the foregoing, it is clear that there is a need for statutory and administrative reform to deal with the problem of counterfeit and pirated products. Generally, our recommendation is to enact legislation providing for simple administrative seizure and destruction of products clearly established to be counterfeit or pirated on an absolute liability basis and for criminal penalties for knowingly dealing in counterfeit and pirated products.

An alternative to a new statute would be to amend existing statutes including the *Customs Act*, the *Criminal Code*, the *Copyright Act* and the *Trade-marks Act*. In the short term amendments could be made as part of ongoing review processes, such as the current Copyright Reform process and the review of the *Trades-mark Act* announced in 2005. However, in order to avoid jurisdictional issues, simplify the statutory process, and generally in recognition of the fact that a particular problem is being dealt with, enacting a separate statute is recommended.

The recommended statute would:

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

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

4.1 Defining the Prohibited Activity

The scope of the prohibition should be limited to clear cases of product counterfeiting and piracy. As noted above, civil proceedings and the existing body of law in respect of the various IP rights is best suited to dealing with marginal cases such as non-commercial situations or situations where there is arguable colour of right.

To date, no clear distinction has been made between civil and criminal infringement of IP in Canada. However, creating a definition of “counterfeit products” and “pirated 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 counterfeiting and piracy.

As discussed above, with respect to “counterfeit products” it is suggested the definition should cover both products that are obviously deceptive copies of existing products, and products that display well-known logos or brands such that it is obvious that they are, in fact, unauthorized reproductions of those trade-marks. With respect to “pirated products,” the definition should cover products that are clearly unauthorized copies of substantial portions of works protected by copyright or neighbouring rights.

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

4.2 Offences for Commercial Manufacture, Reproduction, Importation and Distribution of Counterfeit and Pirated Products

It is recommended that legislation be enacted to clearly make it a criminal offence to manufacture, reproduce, import or distribute, whether at wholesale or retail, counterfeit or pirated products for commercial purposes. The *actus reus* of the offence would be the performing of the prohibited acts, or the possession of counterfeit or pirated products for the purpose of commercial distribution. The *mens rea* of the offence would be knowledge of the perpetrator that the products use or reproduce IP, the use or reproduction of which is not authorized by the IP owner, or that he or she has been willfully blind to that being the case. Purchasers knowing the products to be counterfeit would not be a defence. Available defences would, however, include, *inter alia*, invalidity of the asserted rights, non-infringement and direct or indirect consent from the IP owner. Significant penalties, including fines and imprisonment, would be provided with a general stipulation that the penalty should, at the least, deter by ensuring that the activity has been unprofitable.

In addition, to criminal provisions, it is recommended that a strict liability offence be enacted to deal with situations where knowledge or willful blindness cannot be proven beyond a reasonable doubt or where using the resources necessary to prosecute criminally is not worth it in view of the circumstances. If possible, all relevant officers should be granted the ability to issue tickets setting fines, subject to an ability to prove no knowledge or willful blindness. 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 the criminal offence would be prescribed. No such provisions currently exist in the IP statutes in question, and provisions in a new act are recommended. However, in the short term it may be worth pursuing the enactment of specific copyright or trade-mark strict liability offences in the *Copyright Act* and the *Trade-marks Act*.

Provisions should also be enacted making it an offence to manufacture, distribute, use or possess products whose primary purpose is to facilitate counterfeiting or piracy. 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, circumvent security measures, *etc.*

Until a new anti-counterfeiting statute is enacted, changes could be made to existing legislation as an interim measure. For example, while the current provisions in the *Copyright Act* are of sufficient scope, they could be improved by more clearly defining the prohibited activity, applicable defences and sentencing parameters. Further, copyright offences should be removed from the list of excluded offences under proceeds of crime legislation. The current trade-mark provisions in the *Criminal Code*, on the other hand, need immediate substantive reform to facilitate effective criminal enforcement against importers and distributors. Further, amendment to the *Criminal Code* to add counterfeit and pirated products to the proceeds of crime regime would be useful. Finally, in order to overcome the lack of any provisions specifically making it a criminal offence to knowingly import or distribute products associated with counterfeit trade-marks and to alleviate the federal/provincial jurisdictional issues discussed above, it is recommended that criminal provisions be added to the *Trade-marks Act*.

4.3 Seizure and Destruction

As discussed above, it is recommended that criminality of the products in question be absolute and that summary administrative procedures be provided for seizure and destruction of counterfeit and pirated products. Similar procedures should be prescribed in respect of products whose primary purpose is to facilitate manufacture or distribution of such products.

It is recommended that the procedure generally provide for detention and forfeiture, subject to a summary review procedure whereby owners of the goods may object to forfeiture. An administrative body would be required to hear the objections and it is expected that the body would be part of the CBSA or Industry Canada. Summary

proceedings should also provide a means for the Crown and IP owners to seek costs of investigation, analysis, seizure, storage, prosecution and destruction of forfeited goods. Similarly, provisions similar to those in the *Customs Act* could make importers and owners of forfeited goods liable for all reasonable expenses incurred by the Crown in storing and disposing of the goods.

There are currently no provisions available in Canada similar to those being recommended for detention and seizure of counterfeit and pirated products. The associated resource problem should be addressed in the short term by providing dedicated financial and prosecutorial resources to the RCMP and CBSA for seizure and destruction and should be addressed through appropriate legislation as soon as possible.

4.4 Border Measures

One of the primary aims of reform must be to provide CBSA with a clear mandate to enforce IP rights at the border. The civil system that we currently have in Canada to enforce IP rights at the border simply does not work. Recordation systems, whereby IP owners record their rights with Customs and Customs is given the authority and responsibility to monitor the importation of potentially infringing goods, have proven far more effective in combating counterfeiting and piracy. There are plenty of examples of such systems in other countries, including the United States, Australia, and the European Union, that can serve as models for Canada. Regardless of the particular model used, a revamped Canadian border enforcement system should incorporate at least the following elements:

- A clear prohibition on the importation of counterfeit and pirated goods into Canada;
- Express authority for the CBSA to target, detain, seize and destroy counterfeit and pirated goods either on its own initiative or at the request of an IP owner;

- Intelligence sharing and investigative and enforcement management with cooperation between the RCMP and the CBSA.
- Provisions for the disclosure of information and the provision of samples to IP owners for purposes of determining whether detained goods are indeed counterfeit or pirated and to allow IP owners to exercise their civil remedies; and
- Administrative fines for the importation of counterfeit and pirated goods.

While the CBSA should have a clear mandate to seize counterfeit and pirated goods, this does not mean that the CBSA should not continue to collaborate with other law enforcement agencies. Depending on the circumstances, it may prove more effective, for example, for the CBSA to release the goods and to carry out a controlled delivery involving the RCMP or local police, rather than to seize the goods at the border. Therefore, it is essential even with new border enforcement measures that the CBSA continue to work in close cooperation with the RCMP and other law enforcement agencies. In this regard, provision should also be made for the mutual sharing of information between the CBSA and law enforcement agencies of information that may assist in detecting counterfeit and pirated goods, such as legitimate ports of entry, legitimate importers and exporters, samples of counterfeit products, details of detection devices associated with products, information with respect to past seizures, known counterfeiters and so on.

4.5 Jurisdictional Issues

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

- Enforcement;
- Prosecution; and

- Venue.

With respect to enforcement, it should be made clear that all “peace officers” (as defined in the *Criminal Code*) have the authority to seize counterfeit and pirated products and lay charges under relevant provisions. In addition, all seizures being immediately reported to CBSA and the RCMP, preferably before notice of detection is given to the owner/importer of the suspect property should be encouraged.

With respect to prosecution, authority should be expressly provided to both the Federal Attorney General and the provincial attorneys general to prosecute offences under the act.

With respect to venue, it is recommended that the provisions specifically provide for jurisdiction of provincial court judges, Superior Court judges and judges of the Federal Court of Canada in respect of prosecution of offences. Provisions similar to those currently in the *Competition Act* (see for example s. 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 IP, it is possible that it would become the court of choice for prosecuting significant cases.

4.6 Providing Information to and Cooperation with IP Owners

It is suggested that a system be established for the provision of information regarding current counterfeit or pirated products from IP owners to enforcement officers in Canada. Such information would have to be treated as privileged and confidential.

In addition, cooperation of IP owners will normally be required to establish the counterfeit or pirated nature of the products in question. Information regarding and/or samples of suspect products must be disclosed to IP owners in order to establish the counterfeit or pirated nature of the products. Provision of information as to the source and recipient of, for instance, imported products may also be necessary.

Accordingly, while customs information or other information obtained through investigations should be subject to privacy constraints, provision should be expressly made for peace officers to provide specified information and samples of products to IP owners.

With respect to evidence establishing the counterfeit or pirated nature of products in question, in order to minimize the expense to IP owners, it is recommended that properly executed statutory declarations by authorized representatives of the owner of the IP be deemed to be *prima facie* evidence of the fact that the product is unauthorized, although, even with such provisions in existence, IP owners should be made aware of the fact that further evidence may be required since the proof may be rebutted by accused persons.

Another issue is the damage that publicity regarding distribution of counterfeit or pirated products can do to the goodwill associated with a brand. That is particularly the case when counterfeit products are distributed that raise health and safety, quality or other concerns that are not associated with the legitimate products. It is recommended that express provisions be enacted requiring reasonable consultation with IP owners before government authorities issue press releases or public announcements in respect of counterfeit products. The IP 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 whenever it is reasonable to do so.

4.7 Civil Remedies

It is recommended that provision to be made for summary proceedings by which IP owners may recover reasonable costs they have expended in investigating and assisting in prosecution of counterfeiting or piracy 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 IP owner to establish the

conviction, ownership or responsibility for importation, and the recoverable costs. As an alternative, or in addition, provision could be made for recovery of such costs through the criminal or administrative proceedings under the legislation.

In addition to the foregoing, it is recommended that provisions be enacted to provide for summary proceedings by IP owners against individuals or companies in respect of commercial dealing in counterfeit or pirated products. While civil causes of action already exist, there are no summary trade-mark infringement proceedings or statutory damages. Further, for whatever reason, the copyright provisions are seldom used. It is recommended that a separate cause of action providing significant statutory damages be enacted in respect of possession for commercial distribution and commercial distribution of counterfeit and pirated products. In addition, the provisions should provide for interim and interlocutory injunctions and seizures upon proof establishing the counterfeit or pirated nature of the products, regardless of ability to prove clear irreparable harm.

5. CONCLUSION

There is a pressing need for reform of the laws of Canada in respect of distribution of counterfeit and pirated products. The present paper makes some recommendations that it is hoped will provide a starting point for a legislative reform process. In short, the aim of all interested parties should be to enact effective legislation as soon as possible.