

Intellectual Property

Toronto

BAKER & MCKENZIE

April 2005

In This Issue:

Introduction

The Canadian Legal Landscape

The Road Ahead

Intellectual Property Enforcement at the Canadian Border

I. Introduction

Ten years ago, the word "counterfeiter" conjured up images of crisp thousand dollar bills or kiosks hocking cheap Rolex watches on street corners. Today, counterfeiting has become a ubiquitous and sophisticated global business, which affects virtually every industry - pharmaceuticals, automobile and airplane manufacturing, consumer health and cosmetic products, media and entertainment products, to name a few. Given the potential for profit and the lack of meaningful penalties, counterfeiting is a crime to which no industry is immune.¹

Counterfeits found in the Canadian domestic market are likely to be manufactured overseas and generally enter the distribution chain through import. Therefore, the most logical and effective place to intercept counterfeits is the domestic point of entry, through strong border enforcement, before the goods enter streams of commerce. Border controls are also the best deterrent: Counterfeiters are in the business of risk management and will engage in infringing conduct only if there is a minimal risk of losing their investment. The increased prospect of losing container loads of goods at the border makes the business of counterfeiting a bad risk.

Pursuant to the TRIPS Agreement² ("TRIPS") and the minimum intellectual property protection standards demanded by the North American Free Trade Agreement³ ("NAFTA"), Canada has made a number of changes to its border enforcement regime. As a result of these changes, the Canadian customs detention regime is TRIPS-compliant - on paper. In practice, however, the system is inaccessibly expensive and burdensome. The only intellectual property ("IP") rights enforced at the border are copyright and registered trade-mark rights;

Linda Melnychuk
416 865 2309
linda.melnichuk@bakernet.com

Christopher M. Aide
416 865 6926
christopher.m.aide@bakernet.com

Baker & McKenzie LLP
Barristers & Solicitors
Toronto Office
181 Bay Street, Suite 2100
Toronto, ON M5J 2T3

www.bakernet.com

©2005 Baker & McKenzie
All rights reserved.

¹ Criminal Intelligence Directorate, RCMP, October 2002: Assessment of Commercial Scale Criminal Copyright Piracy and Trade-mark Counterfeiting in Canada.

² *Agreement on Trade-Related Aspects of Intellectual Property Rights*, Marrakesh Agreement Establishing the World Trade Organization, Annex 1C, I.L.M. 1197 (1994) April 15, 1994 [hereinafter TRIPS].

³ *North American Free Trade Agreement*, U.S.-Can.-Mex., 32 I.L.M. 289, January 1, 1994.

therefore, only thin legal protection is offered. Furthermore, the regime is entirely reactive and replete with legislative and policy-based hurdles which disable customs officers from taking proactive steps on their own initiative. Indeed the testament to its weaknesses is the fact that the current system has only been used successfully approximately ten to fifteen times over the past nine years.⁴ Until only recently, there appears to have been a significant lack of political will and government resources available to deal with the inadequacies of the Canadian custom detention regime.

This article explains Canada's customs detention regime and highlights its weaknesses. It also explores one legislative solution that IP rights holders have used, relatively successfully, to stop goods at the border without having to rely on the post-TRIPS customs detention regime.

II. The Canadian Legal Landscape

A. Canada's International Obligations

TRIPS obliges WTO member states to provide "effective" and "expeditious remedies" which constitute real deterrents to intellectual property infringement.⁵ In essence, TRIPS-compliant border measures must be economically accessible, relatively quick and not unnecessarily complicated.

In the early 1990s, in order to bring its standards of IP protection up to the minimum required by international agreements, Canada implemented changes to its domestic copyright and trade-mark legislation.⁶ With respect to border enforcement of these rights, Canada implemented a customs detention regime similar to that which was suggested in TRIPS.⁷ The distinguishing and, arguably, most frustrating factor of Canada's system is that it requires an IP rights holder to seek a court order to detain goods. TRIPS allows countries to use either a judicial or administrative process to suspend counterfeit goods at national borders. Canada chose the judicial route.

B. Canada's Border Enforcement of IP

The Canadian Border Service Agency ("CBSA") is responsible for, amongst other things, processing the importation of goods into Canada.⁸ Currently, in order to stop infringing goods at these gateways an IP rights holder must obtain a court order which directs the CBSA to detain goods.

⁴ *Transshipment and Other Threats to the Enforcement of Intellectual Property Rights in Canada and Mexico*, National Law Centre for Inter-American Free Trade, May 2003 [hereinafter *Transshipment*]. Page 36.

⁵ TRIPS, supra note 2, Article 41.

⁶ *World Trade Organization Agreement Implementation Act* S.C. 1994, c. 47; *North American Free Trade Agreement Implementation Act* S.C. 1993, c. 44.

⁷ TRIPS, supra note 2, Articles 51- 60.

⁸ The CBSA was historically named the Canadian Customs and Revenue Agency (CCRA).

i. Application procedure for customs detention orders

An IP rights holder can bring an application for a detention order before the Federal Court of Canada or the superior court of a Canadian province. The court order can be sought on an ex parte basis but the application must be made on notice to the responsible government minister⁹ so that the CBSA is aware both of the identity of the applicant seeking the order and the contents of the desired order.

To secure a customs detention order, an IP rights holder must furnish compelling evidence which satisfies a court that the goods violate its rights arising under the *Trade-marks Act*¹⁰ or *Copyright Act*.¹¹

In most cases, the IP rights holder will also be asked to post security covering duties, storage and handling charges or to answer any damages that may be incurred by the owner of the goods as a result of the detention.

ii. Affidavit evidence to file in support of application

Because a detention order is usually sought on an urgent basis and without the presence of the importer, the hearing can occur relatively quickly. However, obtaining and implementing the detention order depends on the quality of information provided by the IP rights holder. Gathering this evidence and preparing the application materials is what requires the most effort, time and cost.

To increase the chances of obtaining a court order and successfully detaining goods at the border, the following details should support, via affidavit, the court application:

- A complete description of the goods;
- The quantity and value of the goods;
- The importer's identity and contact information;
- The country of origin and export;
- The anticipated location of import;
- The mode of transportation and identification of containers;
- The anticipated date of arrival;
- Contact information for the IP rights holder to facilitate communication when the goods are detained.¹²

⁹ Ann McLellan, Minister of Public Safety and Emergency Preparedness

¹⁰ R.S.C. 1985, Chap. T-13, as amended.

¹¹ R.S.C. 1985, Chap. C-45, as amended.

¹² Memorandum D19-4-3 - Copyright and Trade-marks - Canada Customs and Revenue Agency, Ottawa, May 19, 2000 [hereinafter CCRA Memorandum]. Paragraph 20.

iii. Content and implementation of order

Any detention order issued will direct the CBSA to take reasonable measures to detain the goods and to notify the IP rights holder and the importer of the fact of, and the reasons for, the detention.

Where a detention order has been issued to detain infringing goods, the CBSA will detain goods at the border pursuant to the order obtained by the IP rights holder. It will then notify the IP rights holder and the importer of the detention and give the parties the opportunity to inspect the goods to assess the suspected infringement.

In some cases, the detention order will direct that the goods be stored in a location that will facilitate ready inspection for the benefit of the IP rights holder. However, if this is the case, the IP rights holder will usually have to pay for any associated costs.

iv. Post-implementation Issues

The detained goods will be released fourteen days after the IP rights holder receives notice of their detention, unless the IP rights holder commences court proceedings to determine the legality of the imported goods. Additional time to commence court proceedings can be sought and granted in the original detention order and, in most cases, IP rights holders are well-advised to seek sufficient time for inspection in the detention order.

If the IP rights holder ultimately establishes that the detained goods infringe its rights, the court can order, amongst other things, that the goods be destroyed, re-exported or surrendered to the IP rights holder. If the court concludes that a registered trade-mark has been applied to a product with the intent of counterfeiting or imitating the trade-mark or of deceiving the public, it is unlikely to permit the goods to be exported in an unaltered state. The court can also award damages and/or profits.

C. Problems

As is clear, the customs detention regime requires that an IP rights holder amass sufficient information to anticipate the importation of illegal goods, well enough in advance that it can mobilize court proceedings, obtain an order and have the order implemented when the goods arrive at the border or prior to their release into the Canadian market. This is no small feat. But in addition to this general difficulty, Canada's customs detention regime suffers from other ambiguities and deficiencies:

a. Legal Burden

Both the Copyright Act and the Trade-marks Act require that a court be satisfied that the goods would infringe copyright or registered trade-mark rights. The provisions are silent with respect to degree of proof but, likely, the standard of "prima facie infringement" outlined in TRIPS would apply.¹³

¹³ *The Intellectual Property Enforcement Challenge in Canada*, International Anti-Counterfeiting Coalition 2003 Toronto Conference, October 30, 2003, Michael D. Manson and Karen F. Macdonald, Smart & Biggar, Vancouver, B.C., page 26.

b. Knowledge requirement for establishing copyright infringements

For detention orders based on copyright infringement, an IP rights holder must establish that the importer knew, or should have known, that the goods were protected by copyright. While copyright notices on products, and copyright registrations, to a lesser degree, will assist in proving knowledge, this requirement remains a significant legal burden for IP rights holders.

c. Limited scope of IP protection

Detention orders are only available to prohibit the importation of goods which violate copyright and trade-mark rights. Therefore, counterfeits which violate industrial design, patent or any other intellectual property rights cannot be stopped through this mechanism. While the detention order provisions in the Trade-marks Act do not require knowledge on the part of the importer, they do require that the trade-marks be registered, therefore unregistered trade-marks also have no protection.

d. Limited access to information

The type of information required to obtain a detention order is infinitely detailed. Even IP rights holders that have the resources to track and gather the required information to anticipate a shipment of counterfeit goods often cannot produce it in time to bring it to court and get an order. Ironically, CBSA is the party best placed to track and record this kind of information but the operation of the *Customs Act*,¹⁴ combined with recent rulings of the Federal Court of Appeal restrict CBSA's ability to share this information with IP rights holders.

e. Trade-mark owner must bring application

In the case of detention orders based on trade-mark infringement, the *Trade-marks Act* requires the trade-mark owner to bring the application. Therefore, under a strict reading of the statute, trade-mark licensees are restricted from using the customs detention regime.

f. Costs

It is difficult to predict the financial investment needed to prepare, obtain and enforce a customs detention order. In many respects, the associated costs depend on the efficacy of the investigative team. In addition, an IP rights holder will usually have to post security to cover any storage or shipping costs related to the detention of goods. While the costs associated with an application for a customs detention order may be lower than a larger action for infringement, the legislation requires that proceedings against the importer be commenced once the order is effected. Therefore, the order is simply the first step in proceedings that must be instituted in order to continue the detention, prevent the goods from entering the stream of commerce and obtain a final remedy. In effect, therefore, the customs detention order represents another layer of litigation costs for the IP rights holder wanting to arrest the circulation of counterfeits.

¹⁴ R.S.C. 1985, Chap. 1 (2nd. Suppl) s. 107(2)

g. Reactive approach

The CBSA cannot stop or detain infringing goods on its own initiative; rather, the participation of the courts is required at every step. There is no legislation that allows for a proactive approach on the part of customs, nor does there appear to be financial or political resources to encourage the CBSA to stop counterfeits independently. The slow, cumbersome system, combined with the fact that Canada has expansive borders that provide many points of entry for infringing products, makes the regime ineffective.

h. Perception of IP Rights as private rights to be enforced only by rights holders.

The perception and position of the CBSA has been that IP rights are private and are to be protected by the private right holder only.¹⁵ The actions of the CBSA to protect copyright protected or trade-marked infringing goods must be initiated by a private rights holder, with judicial, rather than administrative, sanction. This view ignores the public cost posed by counterfeits to government tax revenues and the public health and safety risks posed by their sub-standard manufacture.

i. Lack of resources

Not surprisingly, lack of resources is the primary reason offered for the ineffectiveness of Canada's customs detention regime. Within the CBSA, there also appears to be an unwillingness to encourage and reward activities aimed at enforcing IP rights at the border¹⁶

D. Responses – The RCMP/CBSA 489(2) Protocol

As a way of addressing the problem and avoiding the customs detention regime, the Royal Canadian Mounted Police ("RCMP") - Canada's national law enforcement body, CBSA and private rights holders have begun to use a provision of Canada's Criminal Code to stop infringing goods at the border.

Under a negotiated policy,¹⁷ referred to here as the 489(2) Protocol, if an IP rights holder is able to accumulate sufficient investigative intelligence to convince the RCMP that infringing goods are expected to arrive at the border, the CBSA will seize these goods, upon the recommendation of the RCMP and/or other government departments (OGD), without a court order. The goods are then turned over to the RCMP for storage, handling and reporting to judicial authorities.

The CBSA will detain goods under the 489(2) Protocol and without a detention order only when the RCMP recommends doing so and the CBSA officer has reasonable grounds to believe that the goods are infringing. In the context of the 489(2) Protocol seizures, infringing goods include any goods which provide

¹⁵ CCRA Memorandum, supra note 11, paragraph 8.

¹⁶ *Transshipment*, supra note 4, page 76.

¹⁷ Canada Customs and Revenue Agency, Policy on the Seizure of Goods Pursuant to the Criminal Code of Canada. Contraband and Intelligence Services Directorate, August 2000.

evidence of a violation of a federal act including the Patent Act, Copyright Act, Trade-marks Act, Industrial Design Act, Integrated Circuit Topography Act and Plant Breeders' Rights Act.

By all accounts, seizures under the 489(2) Protocol have been relatively successful, with record seizures taking place in Vancouver and Toronto, specifically.¹⁸ There are, however, deficiencies to the protocol, not the least of which is the cost of storage and destruction of the goods seized by customs and then turned over to the RCMP. In addition, the final decision to make a seizure under the 489(2) Protocol, rests with the individual customs officer who must have reasonable grounds to believe that the goods have been obtained by, used in or will afford evidence of a violation of federal legislation. Another drawback is the amount of information the CBSA and RCMP require before recommending and implementing a 489(2) Protocol.

The 489(2) Protocol remains a reactive way to curb the counterfeiting phenomenon - it still requires massive amounts of information, the majority of which is available to the CBSA but extremely expensive for the IP rights holder to gather. While it has become the "stop-gap" measure of choice, it does not fulfill the need for a permanent solution to the flow of counterfeits into Canada.

III. The Road Ahead

In recent years, representatives from the Canadian private sector, RCMP, and CBSA have held meetings to determine solutions to the problems inherent in the customs detention regime.

A coalition of private sector, customs and law enforcement representatives is forming to increase public awareness of the risks posed by counterfeits, draft new legislation, coordinate with international organizations and lobby the Canadian government for legal change and increased resources for border enforcement. From a legal perspective it is clear that, at the very least, Canada needs a system which allows customs officers to proactively target, seize and destroy counterfeit goods without compelling the private sector to rely on expensive and ineffective civil remedies or the involvement of criminal law enforcement agencies. For this to happen there needs to be a dramatic change in the law, and before that, a general acknowledgment by Canadian policy makers that, while IP rights are private rights, the risks and costs associated with counterfeits make arresting the global flow of counterfeit goods everyone's responsibility.

¹⁸ *Transshipment*, supra note 4, page 68-71.