

# Intellectual Property

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## In This Issue:

Introduction

What are counterfeit products?

How big is the counterfeiting problem?

What sort of damage does counterfeiting cause

The source of the problem

Internal Anti-Counterfeiting Programs

Customs Enforcement

Criminal Investigation & Prosecution

The Traditional Civil Claims

Trade-mark claims

Copyright claims

Design claims

Patent claims

Injunction

The Anton Pillar order

The International Anti-Counterfeiting Coalition's  
2005 Submission to the United States' Trade  
Representative

Other jurisdictions

Conclusion

## Canadian Anti-Counterfeiting Laws & Practice: A case for change

### Introduction

Recently, the International Anti-Counterfeiting Coalition (IACC)<sup>1</sup> asked that Canada be named a Priority Foreign Country (along with only China) in its submission to the United States Trade Representative.<sup>2</sup> In the writer's view, this highlights the significant shortcomings in the legal tools available in Canada to combat a growing problem. While counterfeiting is becoming increasingly significant for intellectual property rights holders, Canadian law offers those affected woefully inadequate tools to combat these problems.

In this paper, I will discuss the nature and extent of the problems caused by counterfeiting activities, the various tools available to respond to counterfeiting and their shortcomings. Ultimately, I will suggest that Canadian anti-counterfeiting laws and procedures need to be modernized and expanded in order to get in line with comparable laws and procedures in other jurisdictions and to afford intellectual property rights holders greater protection and better enforcement tools. In particular, Canadian laws need to be revised in order to allow intellectual property rights holders to protect their rights and their markets at the border without the need to first seek court intervention.

### What are counterfeit products?

According to Black's Law Dictionary, counterfeiting is: "to forge, copy or imitate (something) without a right to do so and with the purpose of deceiving or defrauding."<sup>3</sup> In other words, counterfeit goods are those that purport to be something that they are not. While the words "counterfeiting" and "piracy" are often used interchangeably, there is a distinction. The word "counterfeiting" refers to the representation of an imitation as a genuine article. Usually, this involves putting a

<sup>1</sup> The International Anti-Counterfeiting Coalition (IACC) was formed in 1978 by a number of companies committed to addressing the substantial problems caused by counterfeiting.

<sup>2</sup> IACC Submission to the USTR, February 11, 2005.

<sup>3</sup> *Black's Law Dictionary*, 7th ed., Eagan, MN, West Publishing, 1999

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well-known trade-mark on an imitation of a product in order to deceive consumers into thinking the article is genuine. On the other hand, the word “piracy” refers to stealing, copying and selling the product itself. In these situations, the article, while genuine in a sense, is not made or sold with the authority of the owner. Typically, piracy involves making and selling an unauthorized reproduction of something like a movie, music or a software program.

It is also important to distinguish between counterfeit goods and grey market goods (also referred to as parallel imports). The latter term refers to legitimate goods that were initially sold by the intellectual property rights holder in one jurisdiction and that are later imported into another jurisdiction without authority for resale. Grey marketing has developed due to market differentials (e.g. price, regulation, taxes, inflation, exchange rates, etc.) that make it financially attractive to buy goods in one market and to resell them in another market for a high return. While many intellectual property rights holders view this activity as objectionable, the doctrine of exhaustion often bars them from preventing these activities. While in some countries the exhaustion doctrine only applies to sales that first occurred within that country or a particular region, in Canada it does not matter where the first sale occurred. The important point here is that grey market goods are not counterfeit goods and therefore different approaches must be taken to protecting markets against these authentic products, where possible.

### How big is the counterfeiting problem?

It is difficult to estimate with any precision the extent of counterfeiting that takes place in Canada or elsewhere. However, it certainly appears as though the problem is increasing. In some industries, efforts have been made to quantify the problem. The International Chamber of Commerce has estimated that 7% of world trade involves counterfeit goods and that the counterfeit market may be worth \$350 billion.<sup>4</sup> Others have suggested that the global counterfeit market could be worth as much as \$600 billion annually.<sup>5</sup> According to the U.S. Chamber of Commerce, the counterfeit trade costs U.S. companies alone over \$250 billion per year and over 750,000 lost American jobs.<sup>6</sup> In Canada, while much less information is available, the some have estimated that as much as 20% of some markets may be comprised of counterfeit goods and that the value of the counterfeit market could be close to \$20 billion.

In the automotive industry, counterfeit parts may result in lost annual worldwide sales in excess of \$12 billion.<sup>7</sup> In the U.S., the annual losses in this industry may be as high as \$3 billion and may cost as many as 200,000 lost jobs in the automobile parts trade. In some parts of the world, reports suggest that as many as 4 out of 5 vehicles sold (i.e. motorcycles) may be counterfeit.<sup>8</sup> According to the International

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<sup>4</sup> George W. Abbott, Jr. and Lee S. Sporn, *Trademark Counterfeiting* § 1.03[A][2] (2001)

<sup>5</sup> This figure was cited in an April 21, 2004 Special Address by Shri Navin B. Chawla, Secretary, Consumer Affairs, Govt. of India, reported by the Federation of Indian Chambers of Commerce and Industry: [www.ficci.com](http://www.ficci.com)

<sup>6</sup> U.S. Chamber of Commerce: <http://www.uschamber.com/issues/index/counterfeiting/default>

<sup>7</sup> Richard C. Noble, *From Brakes to Plugs to Engines, Counterfeiters Produce, Push Parts*, Flint J., September 3, 1995; H.R. Rep. No. 104-556 (1996), *reprinted* in 1996 U.S.C.C.A.N. 1074, 1075.

<sup>8</sup> See Tom Nash, *Counterfeit Parts: A Poor Fit For Your Shop*, in *Motor Magazine*, January 2004, online at [www.motor.com/MAGAZINE/Articles/012004\\_04.html](http://www.motor.com/MAGAZINE/Articles/012004_04.html)

Federation of Automotive Aftermarket Distributors (IFAAD), as many as 10% of replacement parts sold in Europe may be counterfeit. Not surprisingly, that number increases dramatically in other places in the world.

In the consumer electronics industry, counterfeiting has become an increasingly large problem, particularly as manufacturing of electronics has gravitated to China. In addition, China has been rapidly building up its own legitimate electronics industry and this emerging ability to produce competitive products will invariably result in an improved ability to produce high value counterfeit electronics products. Currently, some reports estimate that 15% of worldwide electronic products are counterfeit, with higher percentages reported in some regions.<sup>9</sup>

In the luxury goods industry (e.g. clothing, footwear, cosmetics, accessories), counterfeiting costs billions of dollars annually in lost sales.<sup>10</sup> Certainly, we have all seen fake luxury good items such as handbags, watches, scarves, etc. While many counterfeiters have moved into other markets,<sup>11</sup> it is quite clear that counterfeiting continues to pose a major challenge for luxury goods manufacturers.<sup>12</sup> In France, where many luxury goods manufacturers are located, approximately 38,000 jobs are lost every year due to counterfeiting.<sup>13</sup> In effort to combat the problem, leading luxury goods companies spend many millions of dollars every year developing and running sophisticated anti-counterfeiting programs.

In the entertainment industries, piracy/counterfeiting has been a longstanding problem that has been exacerbated in modern times by the emergence of technologies that facilitate quick and cheap reproduction.<sup>14</sup> According to the Motion Picture Association of America (MPAA), video piracy results in annual losses of almost \$1 billion annually.<sup>15</sup> In many countries, well over 50% of the videos in the market are unauthorized or pirated copies.<sup>16</sup> In some cases, major motion pictures are never legally released in some regions because piracy has destroyed the market.<sup>17</sup> In the cable television and satellite broadcast industries, signal theft is a very significant problem. According to some sources, satellite companies, movie studios and sports franchises and other program suppliers lose over \$1 billion annually in uncollected revenue from piracy.<sup>18</sup> In Canada, foreign satellite signal

<sup>9</sup> These figures were discussed in an April 21, 2004 Special Address by Shri Navin B. Chawla, Secretary, Consumer Affairs, Govt. of India, reported by the Federation of Indian Chambers of Commerce and Industry: [www.ficci.com](http://www.ficci.com)

<sup>10</sup> Bernard Arnault of LVMH, quoted in December 3, 2004 edition of *People's Daily Online*

<sup>11</sup> November 28, 2000 European Commission Symposium chaired by Mr. Pascal LAMY, European Commissioner, entitled *Market Access and Enforcement of Intellectual Property Rights: Customs' Battle Against Counterfeiting And Piracy To Protect Intellectual Property*

<sup>12</sup> This market is currently worth almost \$70 billion annually and is soon expected to reach over \$100 billion.

<sup>13</sup> March 21, 2005, *Fake Designer Goods Cost France Dearly*, available online at [www.dw-world.de/dw/article/0,1564,1522689,00.html](http://www.dw-world.de/dw/article/0,1564,1522689,00.html)

<sup>14</sup> The prevalence of piracy in the UK book publishing industry during the 15th century was in part the driving force behind the emergence of modern copyright law.

<sup>15</sup> The MPAA statistics are from 1995: see *Paradise, Trademark Counterfeiting, Product Piracy and the Billion Dollar Threat to the US Economy* (Quorum Books, Connecticut, 1999) page 135

<sup>16</sup> *ibid.*, page 139

<sup>17</sup> ET: The Extraterrestrial was never released outside North America for this reason: David Bollier, *At War with the Pirates*, Channels, March 1987, at page 31

<sup>18</sup> David Lieberman, *Millions of Pirates are Plundering Satellite TV*, USA TODAY, December 1, 2002.

providers have estimated the problem at (amount) and have gone to court to shut down those engaged in the sale of technologies used to descramble or decode their satellite signals.<sup>19</sup> In the music industry, piracy has become an increasingly significant and costly problem. According to the International Federation of the Phonographic Industry (IFPI), global losses from music piracy in 1995 were approximately \$5 billion.<sup>20</sup> By 2000, the IFPI estimated, over 33% of all of music CDs and cassettes sold around the world were illegally produced.<sup>21</sup> By 2004, global sales of pirated music had reached \$4.5 billion annually and over 40% of all of music CDs and cassettes sold around the world were illegally produced.<sup>22</sup> Of course, the associated losses are much higher. In the early 1990's, most piracy involved the unauthorized copying of music cassettes. By the mid 1990's, the unauthorized copying of music CDs emerged as the largest problem. Today, unauthorized copying of music via the Internet is emerging as the largest source of pirated music.

In the pharmaceutical industry, counterfeiting is prevalent in many countries.<sup>23</sup> According to some experts, the annual value of the global black market in counterfeit medicines may exceed US \$32 billion.<sup>24</sup> While the magnitude of the problem certainly varies from country-to-country, the United States Food and Drug Administration (USFDA) has estimated that 10% of medicines in industrialized countries and 25% of medicines underdeveloped poor countries are counterfeit.<sup>25</sup> A recent World Health Organization (WHO) survey from 20 countries found that 40% of counterfeit cases originated in developed countries whereas 60% of these cases occurred in underdeveloped countries.<sup>26</sup> In countries such as India, counterfeit drugs may account for as much as 40% of the market.<sup>27</sup> In the U.S., Pfizer recently faced a serious counterfeiting problem with its anti-cholesterol drug Lipitor, when counterfeit pills were introduced into the local market via repackagers who mixed the fakes pills with authentic pills and distributed them to pharmacies via the secondary wholesale network. Ultimately, millions of Lipitor tablets had to be recalled. More alarmingly, of the counterfeit drugs seized annually in some countries, 43% have no active ingredient; 24% are of poor quality; 21% offer a low content of active ingredient; 7 percent contain the wrong ingredient; and 5 percent have the wrong package.<sup>28</sup>

<sup>19</sup> In this case, *Bell ExpressVu v. Rex*, (2002), 18 C.P.R. (4th) 289 (Supreme Court of Canada), Canada's Supreme Court held that the *Radiocommunication Act* protects both Canadian and foreign signals from unauthorized decoding. Thereafter, the federal government agreed to work with the broadcasting industry to stop the distribution of devices designed for the unauthorized decoding of satellite television programming.

<sup>20</sup> Paradise, *Trademark Counterfeiting, Product Piracy and the Billion Dollar Threat to the US Economy* (Quorum Books, Connecticut, 1999) pages 159-160;

<sup>21</sup> *2001 IFPI Music Piracy Report*, June 2001

<sup>22</sup> *2004 IFPI Commercial Piracy Report*, June 2004

<sup>23</sup> For a good analysis of the problem, see Paradise, *Trademark Counterfeiting, Product Piracy and the Billion Dollar Threat to the US Economy* (Quorum Books, Connecticut, 1999) pages 175-199

<sup>24</sup> This information was disclosed during a December 10, 2004 Web Conference on Anti-Counterfeiting Drug Strategies featuring representatives of the World Health Organization (WHO)

<sup>25</sup> This information was disclosed during a December 10, 2004 Web Conference on Anti-Counterfeiting Drug Strategies featuring representatives of the World Health Organization (WHO)

<sup>26</sup> Substandard and Counterfeit Medicines, the World Health Organization, online at <http://www.who.int/mediacentre/factsheets/fs275/en/>

<sup>27</sup> These figures were discussed in an April 21, 2004 Special Address by Shri Navin B. Chawla, Secretary, Consumer Affairs, Govt. of India, reported by the Federation of Indian Chambers of Commerce and Industry: [www.ficci.com](http://www.ficci.com)

<sup>28</sup> These figures were discussed in an April 21, 2004 Special Address by Shri Navin B. Chawla, Secretary, Consumer Affairs, Govt. of India, reported by the Federation of Indian Chambers of Commerce and Industry: [www.ficci.com](http://www.ficci.com)

In the software industry, piracy is rampant. According to a recent report conducted by International Data Corporation (IDC), 36% of the software installed on computers worldwide in 2003 was pirated, representing a loss of nearly \$29 billion.<sup>29</sup> In light of the relative ease with which software can be copied and distributed, one can expect to see this problem continue to grow.

What sort of damage does counterfeiting cause?

The damage caused by counterfeiting is significant and far-reaching. First and foremost, counterfeit products create substantial health and safety risks.<sup>30</sup> For example, counterfeit pharmaceutical products have been known to cause serious injury and even death.<sup>31</sup> In the airline industry, fake and substandard replacement parts pose a substantial safety risk and appear to have contributed to fatal accidents.<sup>32</sup> In the automotive parts industry, fatal accidents have been attributed to counterfeit parts, as well. For example, the sale of counterfeit brake pads (sometimes made of cardboard, compressed wood chips or grass) has led to fatal accidents in many countries, including one where a school bus overturned after its brake shoe linings (made of grass) burst into flames when the brakes were applied.<sup>33</sup> Second, along with these safety risks comes the risk of product liability claims. Third, the legitimate brand owner will invariably lose sales revenue as a result of counterfeit products. Fourth, the goodwill associated with a well-known brand will invariably suffer due to a false association with inferior goods, thus jeopardizing future sales revenue. Very often, the most popular brands are at the greatest risk.<sup>34</sup> Fifth, counterfeit products result in significant job losses for those who would otherwise be engaged in making legitimate product. Sixth, the cost of identifying and combating counterfeit goods can increase a company's overhead and dilute its profits and/or increase its prices. Seventh, governments around the world lose millions of dollars in tax revenue as a result of fake products.<sup>35</sup> Finally, there is

<sup>29</sup> Information obtained from the Business Software Alliance website at [www.bsa.org](http://www.bsa.org).

<sup>30</sup> Senator Orrin G. Hatch (R-UT, Chairman, Senate Judiciary Committee, Press Conference, August 9, 1995

<sup>31</sup> The World Health Organization has estimated that counterfeit drugs may account for 10% of all pharmaceutical products and that this number can rise to as high as 60% in some developing countries. According to the Shenzhen Evening News (a government owned newspaper), almost 192,000 people died in China in 2001 because of fake drugs. See *China's Killer Headache: Fake Pharmaceuticals*, *The Washington Post*, August 30, 2002; see also Ridgely Ochs, *Sounding Alarm on Counterfeit Drugs; FDA Investigating Recent of Fake Drug Cases*, *New York Newsday*, at 6 (June 12, 2002); House Report of the Committee on Energy and Commerce, Subcommittee on Oversight and Investigations, *Prescription Drug Diversion and Counterfeiting*, July 10, 1985, at 23.

<sup>32</sup> The FAA has estimated that as many as 500,000 counterfeit parts are mistakenly used on aircraft each year: see Billy Stern, *Warning! Bogus Parts Have Turned Up in Commercial Jets Where's the FAA?* *Business Week*, June 10, 1996, at 90. In a US case, the court determined that the defendant sold counterfeit helicopter parts that caused several helicopters to crash resulting in injuries and death. S. Rep. No. 98-526 at 4 (1984), *reprinted in* 1984 U.S.C.C.A.N. 3627, 3630-31. In a 1989 Norwegian plane crash that killed 55 people, the cause appeared to be, in part, from counterfeit shear bolts and sleeves: *55 Killed in Crash of Norwegian Plane, None Aboard Survive as Craft Plunges into Sea Near Denmark*, *L.A. Times*, September 9, 1989, at 4 (cited and discussed in Robert W. Luedeman, *Flying Underground: The Trade in Bootleg Aircraft Parts*, 62 *J. Air L. & Comm.* 9396-100 (August/September 1996).

<sup>33</sup> See Tom Nash, *Counterfeit Parts: A Poor Fit For Your Shop*, in *Motor Magazine*, January 2004, online at [www.motor.com/MAGAZINE/Articles/012004\\_04.html](http://www.motor.com/MAGAZINE/Articles/012004_04.html)

<sup>34</sup> *United States v. Petrosian* 126 F.3d 1232 (9th Cir. 1997). In this case, the counterfeiter was refilling COCA-COLA bottles with a substitute product.

<sup>35</sup> In August 2004, Canadian customs officers and police intercepted a sea container of counterfeit cigarettes being smuggled into Canada, which itself represented half a million dollars in lost taxes which would have been diverted directly into the pockets of organized crime.

growing evidence that counterfeiting is closely associated with organized crime and the financing of terrorist organizations and activities.<sup>36</sup> While some might be surprised by that connection, the fact that the counterfeit market is so lucrative is undoubtedly attractive to those who are willing to bend or ignore the law in furtherance of making a substantial profit.

### The source of the problem

While counterfeit goods emanate from a variety of countries, China is often identified as a major source of counterfeiting activity, with factories in that country producing vast quantities of counterfeit goods.<sup>37</sup> In 1996, the International Intellectual Property Alliance reported that the US had suffered a trade loss of close to \$2.5 billion due to counterfeit goods originating in China.<sup>38</sup> While that figure may have decreased, there is no doubt that counterfeiting remains a significant problem in China, with that country continuing to manufacture many of the counterfeit goods exported elsewhere and with very high rates of counterfeit goods within the huge domestic Chinese market.<sup>39</sup> In understanding the challenges posed by Chinese counterfeit manufacturers, it is useful to briefly summarize the history of intellectual property law in that country.

While the concept of intellectual property rights has existed in China for many years, cultural and philosophical considerations have dampened their utility.<sup>40</sup> In China, there has long been a sense that the rights of the collective supersede the rights of the individual and that socio-economic relationships should be noncompetitive. After the 1949 Marxist revolution, the related sense that the collective should own all property was reinforced. For these reasons, unauthorized copying was never viewed with the same negative connotations as in other regions of the world. Indeed, the Chinese became accustomed to being able to copy and use that which was created by others, irrespective of foreign intellectual property rights. The fact that such activities were largely considered legitimate contributed has greatly to the proliferation of counterfeiting activities in China.

After the failure of China's cultural revolution and the adoption of an open door policy, the Chinese government recognized the need to develop stronger intellectual property laws in order to become part of the international community. This led to various intellectual property initiatives. Locally, China passed its Trademark law in 1982, its Patent Law in 1984, its Copyright Law in 1990, its Software Protection Act in 1991 and its Unfair Competition Law in 1993. Globally, China signed a 1979 agreement with the U.S. that included intellectual property obligations. In 1980, China signed the Convention Establishing the World Intellectual Property

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<sup>36</sup> On May 23, 2002, ABC News reported that, according to Michael G. Kessler of Kessler International Investigations, terrorist organizations were using counterfeiting activities to generate revenue to fund their objectives.

<sup>37</sup> Graham J. Chynoweth, Reality Bites: *How The Biting Reality Of Piracy In China Is Working To Strengthen Its Copyright Laws*, at 2003 Duke L. & Tech. Rev. 0003

<sup>38</sup> 2002 Special 301 People's Republic of China, Int'l Intellectual Property Alliance, at <http://www.iipa.com/rbc/2002/2002SPEC301PRC.pdf>

<sup>39</sup> Serri E. Miller, *The Pisse is Coming to Town... Maybe: The Role of United States Non-Governmental Organizations in Software Anti-Piracy Initiatives as China Seeks WTO Accession*, 7 ILSA J. Int'l Comp. L. 111, at 113 (2000).

<sup>40</sup> Jessica Jiong Zhou, *Trademark Law & Enforcement in China: A Transnational Perspective*, 20 Wis. Int'l L.J. 415, at 421 (2002); see also Yiping Yang, *The 1990 Copyright Law of the People's Republic of China*, 11 UCLA Pac. Basin L.J. 260, 276, (1993).

Organization (WIPO). In 1985, China joined the Paris Convention for Protection of Industry Property. In 1989, China joined the Madrid Convention for the International Registration of Marks. In 1992, China signed the Berne Convention for the Protection of Literary and Artistic Works, the Geneva Phonograms Convention, and the Universal Copyright Convention. In 1994, China joined the Patent Cooperation Treaty.

Still, despite the developments referred to in the previous paragraph and China's growing desire to join the international community, intellectual property rights abuses remained prevalent throughout that country. This was largely due to the cultural issues discussed above and the fact that Chinese intellectual property laws lacked any real teeth. In November 1991, the U.S. Trade Representative (USTR) threatened to impose trade sanctions against China as a result of intellectual property rights violations. However, an agreement was negotiated to avoid the imposition of such sanctions. In February 1995, similar problems led the USTR to again threaten trade sanctions against China for turning a blind eye to counterfeiting activities. This time, sanctions were averted when an agreement was reached pursuant to which China pledged to take immediate steps to address counterfeiting. However, sanctions were threatened the following year when China failed to abide by its undertakings. In response, China took action against a number of producers of counterfeit products and reiterated its commitment to combat these activities. However, the situation did not appreciably improve.

China's failure to adequately recognize and protect intellectual property rights was a key impediment to its joining the World Trade Organization ("WTO").<sup>41</sup> Still, many felt that bringing China into the WTO and making that country subject to its rules and obligations was the best way to ensure continuing improvement in its recognition and protection of intellectual property rights. On December 11, 2001, after years of negotiations, China became a member of the World Trade Organization ("WTO"). In doing so, it undertook to overhaul its approach to the recognition of IP rights in line with the WTO Agreement on Trade-Related Aspects of Intellectual Property Rights (the "TRIPs Agreement"). In advance of its WTO membership, China revised its intellectual property laws to bring itself closer to compliance with its future obligations. These changes were designed to give greater protection to intellectual property and to increase local enforcement mechanisms. Some of these changes are summarized below:

On July 1, 2001, China passed new patent laws that: (a) offered judicial review of administrative patent decisions; (b) offered preliminary injunctions as a remedy for patent infringement; (c) protected prior design rights; and (d) specifically targeted counterfeit manufacturers by putting the onus on the defendant in many cases to show that its product was legitimate. On October 27, 2001, China passed new copyright laws that: (a) created rental rights for cinematographic and computer software; (b) recognized on-line distribution rights; (c) offered statutory damages and preliminary injunctions as remedies for copyright infringement, and (d) gave royalty collecting organizations the right to sue behalf of their members. On December 3, 2001, China passed new trade-mark laws that: (a) broadened the scope of what could be registered; (b) gave priority registration rights; (c) recognized and

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<sup>41</sup> In addition, trade barriers that limited foreign access to the tremendous Chinese market and alleged human rights violations were other key issues.

offered protection to prior rights; (d) gave stronger protection to well-known trade-marks; (e) prohibited registrations by agents or representatives; and (f) offered statutory damages and preliminary injunctions as remedies.

By most accounts, China did a relatively good job overhauling its legal systems to create stronger intellectual property rights. While these changes were all positive in form, China has been less successful in ensuring effective IPR protection, and enforcement remains a problem, as discussed below.

In its December 11 2003 report, the United States Trade Representative (USTR) for China reported to the United States Congress on China's compliance with its WTO obligations, and said that, while intellectual property was better protected by legislation, the lack of proper enforcement mechanisms rendered the overall system inadequate.<sup>42</sup> By virtue of these weak enforcement mechanisms, the report noted, there remained "rampant piracy" of film, music, publishing and software products, infringement of pharmaceutical, chemical, information technology and other patents, and counterfeiting of consumer goods, electrical equipment, automotive parts and industrial products. In its December 11, 2004 report, the USTR for China reported that these problems continued.<sup>43</sup>

According to many authorities, counterfeiting in China remains at epidemic levels and continues to cause substantial harm to IPR owners around the world. In particular, China remains a key source of counterfeit goods manufactured for export, and counterfeit products continue to flood the local Chinese market. While the Chinese government undertook to address this serious issue during the April 2004 Joint Commission on Commerce and Trade (JCCT) and presented an associated action intended to "substantially reduce IPR infringement," any ensuing success will be slow and incremental. China's current action plan calls for: (a) improved legal measures to facilitate criminal prosecution of IPR violations, (b) greater enforcement activities, and (c) a national education campaign. The U.S. Government will review implementation of the action plan with the assistance of industry under the Special 301 provisions of U.S. trade law to assess China's implementation of its IPR commitments. Hopefully, all of this will help to reduce the propensity of Chinese counterfeiting, as counterfeiting remains a significant industry and thus a significant problem in that country. Success in this regard is imperative because we will likely see an even greater concentration of manufacturing in China, with the majority of products in many industries being manufactured in that country.

### Internal Anti-Counterfeiting Programs

Given the damage caused by counterfeiting, many companies have begun to develop and run anti-counterfeiting programs with various levels of sophistication. An internal anti-counterfeiting program should have many goals, which should be closely aligned with the company's objectives and its intellectual property management program. Generally speaking, the elements of an effective program will involve detection, reaction, avoidance and education. While the various elements of an internal anti-counterfeiting program are not the subject matter of this paper, I have discussed these elements in a very general way below.

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<sup>42</sup> The Office of the U.S. Trade Representative, 2003 Report to Congress, (December 11, 2003)

<sup>43</sup> The Office of the U.S. Trade Representative, 2004 Report to Congress, (December 11, 2004)

With respect to detection, the anti-counterfeiting game plan will often involve: (a) educating the market as to the existence of the problem, (b) educating customers as to how to spot and avoid counterfeit goods, (c) the use of available detection technologies; and (d) ensuring that trained investigatory resources are available. Ultimately, the goals here will be to protect the market and to ultimately identify via developed intelligence the source of the counterfeit products.

With respect to reaction, the anti-counterfeiting game plan will generally involve an established approach to suspected or detected counterfeiting, including: (a) acceptable procedures for arranging a buy of suspect product for testing and evidence; (b) the use of standard cease-and-desist letters; (c) the development of a relatively standard settlement agreement used to resolve cases in an efficient way that generates useful intelligence; (d) the availability of properly trained investigators who understand a particular product market and the related technologies; (e) open channels of communication with the appropriate customs and police officials; (f) the use of acceptable methods of developing and preserving evidence; (g) the availability of legal resources able to pursue civil remedies in an efficient and effective manner.

With respect to avoidance and education, the anti-counterfeiting game plan will involve: (a) educating the market as to the existence of the problem, (b) educating customers as to how to spot and avoid counterfeit goods, (c) educating the authorities as to the existence and extent of the problem, (d) the use of available detection and avoidance technologies; (e) the development and use of intelligence geared towards ultimately disclosing higher level sources of counterfeit goods; and (f) active participation in industry groups and lobbying efforts designed to address counterfeiting in Canada and abroad.

In developing an anti-counterfeiting strategy, early analysis and planning is the key. In the writer's view, trying to stop counterfeiting without a proper plan is like trying to cure malaria by swatting mosquitoes: it won't work. Therefore, the game plan is critical. While there will be many elements in the plan, as discussed above, the ultimate goal will usually be to identify the main players (e.g. top level importers) and, eventually, the manufacture. Very often, this will entail the pursuit of legal proceedings in a foreign country where the manufacture operates. While this can be costly, the associated expenses usually pale in comparison to the substantial costs of counterfeiting.

In some industries, collective resources are used to address and pursue counterfeit activities. For example, the Canadian Recording Industry Association (CRIA), which represents companies that create, manufacture and sell sound recordings, works to address piracy in the music business via public awareness campaigns, surveys, an anti-piracy hotline, lobbying efforts, training law enforcement officials, utilizing private investigators, etc. Along the same lines, the Canadian Alliance Against Software Theft (CAAST) works with software manufacturers to address the problems posed by software piracy via the provision of educational information, the operation of a piracy hotline, and joint efforts with the Business Software Alliance (BSA). In the pharmaceutical industry the FDA, the National Association of Chain Drug Stores (NACDS) and others have begun to work towards combating counterfeiting via the adoption of new procedures and technologies.

## Customs Enforcement

A key goal in any anti-counterfeiting program is to prevent fake goods from entering a particular country. In Canada, this has been difficult because of weak border enforcements rules and procedures. In effect, unless the counterfeit goods violate the *Customs Act*, customs officials have little authority to do much of anything absent a court order obtained by an intellectual property rights holder. Both the *Trade-marks Act* and the *Copyright Act* do contain a handful of procedural provisions ostensibly designed to address counterfeiting at the border.<sup>44</sup> However, to take advantage of these provisions and prevent the entry of product, the intellectual property rights holder must: (a) develop intelligence identifying the full particulars of the offending product en route; (b) apply to the court for relief with appropriate evidence; (c) post some form of security; and (d) maintain proceedings to ultimately determine the propriety of the goods, all as explained above. It goes without saying that the process is time-consuming, expensive, and ill-suited to achieving proactive results. With the exception of those situations where the RCMP is investigating and can authorized customs to seize goods in furtherance of its own investigation, there is little that customs or the intellectual property rights holder can do other than proceed with these cumbersome civil applications.

More recently, customs officials have begun to share information about counterfeit goods with the RCMP under section 108(1) of the *Customs Act*.<sup>45</sup> While it has been suggested that it is wrong for the CCRA to share information collected for customs purposes other than for the express purpose of administering the *Customs Act*, there appears to be legislative support for this interdepartmental cooperation.<sup>46</sup> While the core powers of customs officials remain far too limited, this growing cooperative approach to the detection of counterfeit goods will, hopefully, help. Presently, acting under section 489 of the *Criminal Code*, customs officers may seize goods at the border based on intelligence received and in furtherance of criminal counterfeit investigations run by the RCMP.<sup>47</sup> While this leaves much to be desired in terms of border enforcement, it does represent an improvement in Canadian border enforcement as it allows customs officers to collaborate with the RCMP to identify and seize counterfeit goods. Under the new policy, the RCMP can provide customs officers with intelligence regarding counterfeit shipments. Thereafter, customs officers may seize such goods discovered during the course of their duties and, later, deliver these goods to the RCMP for further investigation. Still, customs officials have no authority to act *ex officio* without an RCMP directive or a civil court order.

While the RCMP and the CCRA have undertaken to maintain properly trained units in those regions where counterfeit activities are prevalent (e.g. Vancouver, Toronto, Montreal and Halifax), their individual and collective resources nonetheless remain limited. While Canada's border enforcement mechanisms still fall far short of what is available in other jurisdictions, this policy has been well received by some

<sup>44</sup> see section 53 of the *Trade-marks Act* and section 44 of the *Copyright Act*, discussed above.

<sup>45</sup> This legislation permits customs officials to communicate information they collect for customs purposes to other customs officers, persons legally entitled to the information and persons authorized by the Minister to receive the information (e.g. RCMP enforcement officers).

<sup>46</sup> *Privacy Act (Can.), s. 8 and Customs Act (Can.), s. 108 (Re)*, (2001), 210 D.L.R. (4th) 279 (S.C.C.)

<sup>47</sup> This was done via the status of "public officer" under section 489(2) of the *Criminal Code*.

intellectual property rights owners, and represents an improvement. Hopefully, this will lead to a decrease in counterfeit goods entering Canada and will assist with criminal investigation and prosecution.

While the recent RCMP and CCRA initiative may be viewed by some with guarded optimism, anti-counterfeiting laws and measures available in Canada are still relatively weak and lag far behind the laws and measures available elsewhere. In fact, the weaknesses in the Canadian rules and measures are sufficiently great that the International Anti-Counterfeiting Coalition (IACC)<sup>48</sup> recently asked that Canada be named a Priority Foreign Country (along with only China) in its 2005 submission to the United States Trade Representative.<sup>49</sup>

### Criminal Investigation & Prosecution

While most counterfeiting activities are addressed in Canada via formal civil legal proceedings (discussed below), some such activities can constitute criminal conduct and those engaged in these activities are subject to prosecution and imprisonment. I've briefly discussed the relevant statutory provisions below.

Canada's *Criminal Code* contains provisions that criminalize certain trade-mark-related counterfeiting activities. Under the relevant sections (407-414), counterfeiters can be prosecuted for, amongst other things, intentionally using someone else's trade-mark with the intention to deceive or defraud. In the event of a conviction under these sections, the counterfeiter will invariably be ordered to forfeit that which has been used in association with the activities leading to the conviction. As these are criminal offences, proof of the relevant intent is a condition precedent to conviction and the burden of proof is much higher than in civil cases.

Canada's *Copyright Act* has its own provisions that may render certain counterfeiting activities criminal.<sup>50</sup> Under these provisions, everyone who, amongst other things, knowingly makes or sells an infringing copy of a protected work, or knowingly imports into Canada for sale or distribution an infringing copy of a protected work may be guilty of an offence and liable to conviction. To convict someone for criminal copyright activities, it is necessary to show that he or she acted with knowledge of the copyright and with the specific intent to deceive or defraud. For example, in a prosecution relating to someone who had sold counterfeit NIKE, TOMMY HILFIGER and OAKLEY products, the accused was acquitted because the Crown could not prove beyond a reasonable doubt that the accused knew he was selling counterfeit goods.<sup>51</sup>

In particularly egregious situations, it is theoretically possible that counterfeiting could constitute fraud under the *Criminal Code*.<sup>52</sup> In one case, the defendant was charged with criminal fraud as a result of the unlawful sale of counterfeit copies of

<sup>48</sup> The International Anti-Counterfeiting Coalition (IACC) was formed in 1978 by a number of companies committed to addressing the substantial problems caused by counterfeiting.

<sup>49</sup> IACC Submission to the USTR, February 11, 2005.

<sup>50</sup> See section 42 of the *Copyright Act*

<sup>51</sup> *R. v. Farrell* (2002), 19 C.P.R. (4th) 538 (New Brunswick Court of Queen's Bench)

<sup>52</sup> *Regina v. Leahy* (1988), 21 C.P.R. (3d) 422 (Ontario Provincial Court); *R. v. Olan, Hudson & Hartnett* (1978), 86 D.L.R. (3d) 212, 41 C.C.C. (2d) 145, [1978] 2 S.C.R. 1175

videotapes in which another party owned the copyright. In that case, the defendant was aware of the illegitimate origins of the counterfeit videotapes he was selling and had actively sought to deceive buyers.<sup>53</sup> This, in the court's view, could amount to both criminal copyright infringement and criminal fraud.

In Canada, many counterfeiting activities are investigated by the Royal Canadian Mounted Police ("RCMP"), although local police may be involved in certain criminal investigations as well. Unfortunately, the RCMP has limited resources available to pursue counterfeiting and, accordingly, will usually only investigate counterfeiting on a larger commercial scale, where the target is a manufacturer, wholesaler or importer. In other words, absent some safety issue, the RCMP will usually not investigate smaller, "street-level" counterfeiters, unless doing so presents a reasonable opportunity to identify the ultimate manufacturer, importer or distributor of counterfeit goods. While the will to assist intellectual property rights holders is there, the resources are lacking.

Frankly, there may be some cultural and historical impediments to prosecuting counterfeiters for their criminal activities. For many years, the authorities have viewed intellectual property enforcement as a private civil matter and there were few criminal prosecutions. As a result, there are relatively few with specific expertise in investigating and prosecuting intellectual property crimes such as counterfeiting. This has resulted, in the writer's view, in some reluctance to prosecute intellectual property crimes.

While the chances of getting the RCMP to investigate counterfeiting or getting the crown to prosecute counterfeiters may be low, there are things that intellectual property rights holders can do to assist the authorities in pursuing counterfeiters. First, an effort should be made to report all counterfeiting, regardless of whether it will lead to an ultimate investigation or prosecution. This is particularly true where the counterfeit activity in issue could result in personal injury. Also, it is possible that the police may have a parallel investigation underway or can share some intelligence (subject to legal restrictions). Second, the intellectual property rights holder should pursue civil proceedings because the development of its civil case will often lead to the initiation of a criminal investigation, particularly where the civil case is well developed. Third, given that criminal proceedings may follow the civil case, proper care should be taken in the handling of evidence used in any civil investigation or related proceedings.

Intellectual property rights holders should assume that the authorities will not take a lead role in investigating counterfeit cases, due largely to inadequate resources. Given this, intellectual property rights holders should develop their own relationships with experienced legal counsel and private investigators to investigate and prosecute civil cases, as per the traditional remedies discussed below. At the very least, this will assist in obtaining available relief, including customs detention orders, pre-trial injunctions and Anton Pillar orders. In some cases, the development of an organized and compelling civil case may ultimately lead to criminal investigations and prosecution.

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<sup>53</sup> *Regina v. Kirkwood* (1983), 73 C.P.R. (2d) 114 (Ontario Court of Appeal).

## The Traditional Civil Claims

As noted earlier, unlike in many countries, Canadian customs officials can only act to seize goods at the behest of the intellectual property rights holder where it has first obtained a civil court order authorizing that action. Thus under the current system those damaged by counterfeiting need to utilize their civil remedies in an effort to stop counterfeit goods at the border. Unfortunately, intellectual property rights holders often cannot obtain the evidence required to obtain these court orders until after the goods are in the country. In other words, they are often left trying to close the proverbial barn door after the horse is out. I have explained the usual civil claims and processes below, along with some of the drawbacks.

### Trade-mark claims

While trade-mark law is in part designed to avoid consumer deception, counterfeiting is specifically intended to deceive consumers through the unauthorized use of someone else's trade-marks. In counterfeiting cases, the counterfeiter puts a trade-mark on a cheap replica of a product with a view to deceiving consumers into believing that the product is in fact genuine.<sup>54</sup> This often involves higher-end consumer goods, such as watches, handbags, clothing, electronics, etc. When a consumer purchases such a product, he/she reasonably expects a certain level of quality typically associated with the brand and its source. However, the consumer's expectations are usually not met because the counterfeit product is invariably inferior. The unauthorized use of trade-marks in this manner usually amounts to trade-mark infringement or passing off, as discussed below.

Under section 19 of Canada's *Trade-Marks Act*, a trade-mark owner has the exclusive right to use its registered trade-mark in Canada with the registered wares/services. In other words, no one else can put that mark on their own products. Section 19 often applies in counterfeit cases because the counterfeiter has put the trade-mark on its own product without authority.<sup>55</sup> By doing so, it has infringed the trade-mark.

Under section 20 of the *Trade-Marks Act*, a trade-mark owner's rights are infringed by anyone who, without authority, sells, distributes or advertises wares or services in association with a confusingly similar trade-mark or trade-name. This section could apply where the counterfeiter puts a deceptively similar trade-mark on the counterfeit product. In these "knock-off" situations, the counterfeiter is hoping that the consumer doesn't recognize the slight distinction between the legitimate brand and the deceptively similar one that it has used.

Section 7(a) of the *Trade-Marks Act* allows a trade-mark owner to seek relief where someone makes false statements tending to discredit its business, wares or services. Theoretically, a trade-mark owner might be able to sue a counterfeiter under this section for falsely stating that its fake product is the legitimate product, since such a statement could discredit the legitimate wares. This type of false or misleading statement might also form the basis of a claim under section 52 of our *Competition*

<sup>54</sup> Technically, counterfeiting can be distinguished from piracy because, in piracy cases, the actual product itself is taken and copied without authority, resulting in an unauthorized duplicate. However, the ultimate consumer still gets the product that it intended to purchase (e.g. a computer program or videogame)

<sup>55</sup> *Gianni Versace S.p.A. et al. v. 1154979 Ontario Ltd. et al.* (2003), 28 C.P.R. (4th) 217 (Federal Court of Canada)

*Act*, which prevents anyone from knowingly or recklessly making false and misleading statements for the purpose of promoting the supply or use of its product and/or for the purpose of promoting, directly or indirectly, a business interest.<sup>56</sup> However, these sections are not typically used in counterfeiting cases.

Section 7(b) of the *Trade-Marks Act* prevents anyone from directing public attention to their wares, services and business in such a way as to cause or to be likely to cause confusion in Canada between its wares, services and business and those of another.<sup>57</sup> In essence, section 7(b) prevents traders from misrepresenting their goods or services as being those of another and thereby appropriating the other's goodwill.<sup>58</sup> In many counterfeit cases, claims arise under section 7(b) since the counterfeiter is doing exactly what that section is intended to preclude: pretending their products are someone else's. Unlike section 19, this provision does not require that the trade-mark be registered. Section 7(b) is similar to the common law passing off claim, which is designed to prevent someone from pretending or suggesting that his/her goods are someone else's.<sup>59</sup> The elements of that claim are: (a) the existence of goodwill or a reputation attached to goods or services; (b) a misrepresentation by the defendant to the public (whether or not intentional) leading or likely to lead the public to believe that goods or services offered by him are the goods or services of another; and (c) a likelihood of ensuing damage.<sup>60</sup> In counterfeiting situations, it is often relatively easy to establish passing off. In one such case, the owner of the LOUISVUITTON mark was successful in preventing a Korean company from selling counterfeit handbags under this section, and received compensation based on the counterfeiter's profits.<sup>61</sup> In another recent case, the owner of the HERMES brand relied on a passing off claim to restrain a company from selling cheap imitations of its well-known handbags.<sup>62</sup>

Section 7(c) of the *Trade-Marks Act* prevents anyone from passing off goods or services as and for those ordered. In essence, section 7(c) prevents traders from substituting their goods or services for those of another by making the products look similar or via using an infringing trade-mark. In counterfeiting situations, claims can usually be advanced under this section as well.<sup>63</sup>

Section 7(d) of the *Trade-Marks Act* prevents traders from falsely describing their wares and services in a manner that is likely to mislead the Canadian public as to their character, quality and origin. Again, claims could seemingly arise under this section in counterfeiting cases since the counterfeiter is invariably (albeit perhaps implicitly) falsely describing its wares as the legitimate wares of the trade-mark owner, and thus misrepresenting their character, quality and origin.

<sup>56</sup> *Procter & Gamble Pharmaceuticals Canada, Inc. v. Novopharm Ltd.* (1996), 68 C.P.R. (3d) 461 (Federal Court, Trial Division).

<sup>57</sup> *Ashjorn Horgard A/SV Gibbs/Nortac Industries Ltd. Et Al.* (1987), 14 C.P.R. (3d) 314 (Federal Court of Appeal),

<sup>58</sup> *Enterprise Rent-A-Car v. Singer* (1996), 66 CPR (3d) 453 at 472 (Federal Court)

<sup>59</sup> *Perry v. Truefitt* (1842), 6 Beav. 66, 49 E.R. 749; *Singer Manufacturing Co. v. Loog* (1880), 18 Ch. D. 395 (C.A.); affirmed 8 App. Cas. 15 (H.L.)

<sup>60</sup> *Reckitt & Colman Products Ltd. v. Borden Inc.*, [1990] 1 All E.R. 873 (H.L.)

<sup>61</sup> *LouisVuitton, S.A. v. Endo* (1991), 36 C.P.R. (3d) 524 (Federal Court, Trial Division)

<sup>62</sup> *Hermes Canada v. Park* (2004), 37 CPR (4th) 244 (BCSC)

<sup>63</sup> *ibid* note 50

Counterfeiting can give also rise to claims under section 22 of the *Trade-marks Act*, which protects trade-mark goodwill. The word “goodwill” refers to a trade-mark’s ability to attract customers to a particular product or service.<sup>64</sup> In 1953, Canada became one of the first countries to seek to protect trade-mark goodwill via legislation.<sup>65</sup> In the view of the committee struck to examine the issue, “anything that depreciates the value of the goodwill attaching to a trade-mark should be prohibited.”<sup>66</sup> In most counterfeiting situations, the counterfeiter’s activities will depreciate the value of a trade-mark’s goodwill because the product is inferior.<sup>67</sup> Therefore, a trade-mark owner will usually have a section 22 claim in counterfeiting cases, provided that its trade-mark is registered.

The *Trade-marks Act* contains a handful of procedural provisions that can be used to address counterfeiting.<sup>68</sup> Under section 53 of that legislation, a trade-mark owner can seek interim custody of goods that have been imported into Canada by bringing an application (with or without notice to the counterfeiter) along with supporting evidence showing that its registered trade-mark or a trade-name has been applied to goods that are to be distributed in Canada in a manner that will violate its rights. Very often, the court will insist that the trade-mark owner post security as a condition precedent to granting an interim order. Of note, this section only applies where the goods have already been imported. Also, an order under section 53 only results in a temporary seizure of the offending goods. The trade-mark owner must thereafter start formal proceedings within a limited period to determine the legality of the defendant’s activities. In the ensuing lawsuit, if the court finds that the defendant’s activities violate the *Trade-marks Act*, it can grant more permanent relief, including an order prohibiting the future importation of the associated products.

Under section 53.1 of the *Trade-Marks Act*, a trade-mark owner can seek an order granting interim custody of goods that have yet to be imported into Canada by bringing an application on notice to the Minister of National Revenue (the “Minister”) (with or without notice to the counterfeiter) demonstrating that infringing products bearing its trade-mark are about to be imported into Canada or released into Canada. In response to a section 53.1 application, the court can direct the Minister to take steps to detain these suspect products and to notify the trade-mark owner and the owner/importer of the wares that they have been detained. Again, the court will usually require the trade-mark owner to post some security as a condition precedent to granting such an interim seizure order.

In granting an interim section 53.1 order, the court will require the plaintiff to start an action within a stipulated period for a final determination as to the legitimacy or legality of the products. The Minister will usually allow all parties an opportunity to inspect the detained goods for the purpose of substantiating or refuting the trade-mark owner’s claim. Where the court agrees that the seized goods infringe the trade-mark owner’s rights, it can make any order that it sees fit, including an order that the wares be destroyed or exported, or that they be surrendered to the trade-mark owner. Where the court finds that a registered trade-mark was applied

<sup>64</sup> *Inland Revenue v. Muller & Co’s Margarine Ltd*, [1900-03] All E.R. 413 (HOL)

<sup>65</sup> *Report of the Trade-mark Law Revision Committee* (January 20, 1953)

<sup>66</sup> *Ibid.* at page 26

<sup>67</sup> *S.C. Johnson & Son, Ltd. v. Marketing International Ltd.* (1977), 32 CPR (2d) 15 (FCTD); reversed 41 CPR (2d) 35 (FCA); affirmed 44 CPR (2d) 16 (SCC)

<sup>68</sup> Many of these sections resulted from changes required by the North American Free Trade Agreement.

without authority to detained goods for the purpose of counterfeiting, it will not, except in exceptional circumstances, allow the counterfeit goods to be released or exported in an unaltered state. Where the trade-mark owner fails to commence an action within the permitted time, the Minister will typically release the goods.

While the cited provisions of the *Trade-marks Act* give trade-mark owners some means by which to address counterfeiting, the available means are inadequate as they are cumbersome, time-consuming and expensive. Also, unlike the situation in many other jurisdictions, relief is only available through reactive court proceedings: there is often little a trade-mark owner can do proactively to prevent the importation of the counterfeit product. In many cases, the trade-mark owner will lack the intelligence necessary to facilitate a section 53.1 seizure until after the product has entered the country.

### Copyright claims

Copyright protects an author's right to reproduce his/her original works in any material form. In Canada, copyright can subsist in virtually every material form of original literary, dramatic, musical and artistic expression, provided that the author meets certain requirements. Usually, copyright exists for the life of the author plus an additional 50 years, which is less than in some countries. While the author of a work usually owns the copyright therein, where he/she creates a work in the course of employment, his/her employer, in the absence of an agreement to the contrary, is the owner of the copyright therein.<sup>69</sup> While a copyright owner can register his or her interest in a work, doing so is not a prerequisite to acquiring or enforcing copyright, as is the case in some jurisdictions.

In Canada, moral rights exist separate and apart from copyright and cannot be assigned or conveyed, although they may be expressly waived.<sup>70</sup> The right of paternity is the author's right to be associated with the work.<sup>71</sup> The right of integrity is the right to prevent the distortion, mutilation and/or modification of the work.<sup>72</sup>

Usually, copyright infringement involves one party copying or using another party's original work without permission. Whereas primary infringement involves unauthorized copying, secondary infringement often involves the unauthorized distribution of an infringing copy.<sup>73</sup> Copyright infringement in counterfeiting cases usually involves the unauthorized reproduction or distribution of a protected work. Often, these activities are better described as piracy, since the pirate is usually selling the actual product that the consumer intends to buy, notwithstanding that the

<sup>69</sup> Section 13(3), *Copyright Act* R.S.C. 1985, c. C-42

<sup>70</sup> *Folks v. Greensleeves Publishing Ltd. et al* (1997), 76 C.P.R. (3d) 359 (Ont. Gen. Div.) at page 362.

<sup>71</sup> *Copyright Act* R.S.C. 1985 c. C-42, s. 14.1(1); *Dolmage v Erskine* [2003] O.J. No. 161 (Ont. Sup. Ct.) at par 152.

<sup>72</sup> *Copyright Act* R.S.C. 1985 c. C-42, s 28.2(2).

<sup>73</sup> Under s. 27(2) of the *Copyright Act*, it is an infringement of copyright for any person to (a) sell or rent out, (b) distribute to such an extent as to affect prejudicially the owner of the copyright, (c) distribute, expose or offer for sale or rental or exhibit in public, or (d) possess or import into Canada for the purpose of doing anything proscribed in paragraphs (a) to (c), or (d) import into Canada for the purpose of doing anything referred to in paragraphs (a) to (c), a copy of a work, sound recording or fixation of a performer's performance or of a communication signal that the person knows or should have known infringes copyright or would infringe copyright if it had been made in Canada by the person who made it.

copy itself was unauthorized. In one such case, a defendant was held liable for copying and selling copies of a poster of Farah Fawcett-Majors without authority. While the consumers were getting a real poster (as opposed to a fake), the copies were reproduced without the owner of the copyright's permission. In that case, the court held that counterfeit poster was the result of a clear, deliberate and calculated act of piracy of the copyright of the plaintiff, and awarded the copyright owner an injunction, as well as substantial damages.<sup>74</sup>

Whereas copyright infringement under subsection 27(1) of the *Copyright Act* usually involves the unauthorized reproduction of a protected work, as in the noted Farah Fawcett-Majors case, infringement under subsection 27(2) usually involves importing, possessing, selling or distributing a copy of work that the person knew or should have known either infringed copyright or would have infringed copyright if made in Canada by the person who made it. For liability to arise for these "secondary" offences, there must be some basis on which the counterfeiter knew that copyright existed in the protected work. Practically, this knowledge can arise via the existence of a copyright registration, the use of a copyright notation on the original work, or via some form of actual knowledge (e.g. a letter advising of the existence of the copyright).<sup>75</sup>

While a copyright owner can sue for infringement where the counterfeiter or pirate has made an unauthorized copy of the product itself (e.g. a film, a poster, a video game, etc.), it may also be able to sue where the counterfeiter or pirate has made an unauthorized copy of a more peripheral or collateral work that is distributed in association with a product that is not protected by copyright, such as a warranty card, an information tag, product instructions, a manual, etc. In some counterfeiting cases, these options are overlooked.

Under section 64 of the *Copyright Act*, it is not an infringement of copyright or moral rights to reproduce or copy certain designs that are applied to a useful article that is reproduced in a quantity of more than fifty, except in limited circumstances.<sup>76</sup>

Under section 64.1 of the *Copyright Act*, it is not an infringement of copyright or moral rights to apply to a useful article any features dictated solely by a utilitarian function of the article or to reproduce in any material form features of an article that are dictated solely by its utilitarian functions.<sup>77</sup> These sections may limit the application of copyright law in counterfeiting situations involving products such as watches, jewelry, vases, etc. However, these works may be protected under the *Industrial Design Act*, discussed below.

The *Copyright Act* also contains customs detention provisions. Under section 44, for example, a court can order the Minister to seize and detain goods where a judge is satisfied that: (a) copies of a work are about to be imported into Canada, or have been imported into Canada but have yet to be released; and (b) copies of the work were made without the consent of the person who owned the copyright in the country where they were made, or the copies were made elsewhere than in a

<sup>74</sup> *Pro Arts, Inc. v. Campus Crafts Holdings Ltd. et al.* (1980), 50 C.P.R. (2d) 230 (Ontario High Court of Justice)

<sup>75</sup> *Wing et al. v. Van Velthuisen c.o.h. Gratitude Press Canada* (2000), 9 C.P.R. (4th) 449 (FCTD)

<sup>76</sup> This rule and certain of the exceptions noted apply based in part on when the work was created.

<sup>77</sup> For these purposes, a "useful article" is one that has a utilitarian function, and a "utilitarian function" is one that does something other than merely serving as a substrate or carrier for an artistic or literary work.

country to which the *Copyright Act* extends, but the copies would infringe copyright if they were made here by the importer and the importer knows or should have known of this.<sup>78</sup> Under section 44.1, a court may order the seizure of a work by the Minister in response to an application by the copyright owner or its exclusive licensee for such an order. Very often the court will require that the party seeking the order furnish security to cover duties, storage, handling charges, and any damages that the importer may suffer may by reason of the order made. This application can be brought with or without notice to the importer, although the Minister must be given notice. Thereafter, the Minister will notify the applicant and the importer as to what has occurred and why. After receiving notice, the copyright owner or licensee is obligated to initiate proceedings to have the issue of ownership and infringement determined by the court. In furtherance thereof, the Minister will typically give the applicant and the importer an opportunity to inspect the detained works for the purpose of substantiating or refuting the claims advanced.<sup>79</sup>

Where the court ultimately finds in the copyright owner or licensee's favour, it may make any order that it considers just and appropriate in the circumstances, including an order that the works be destroyed or delivered up to the applicant as its property absolutely. Where the copyright owner or licensee fails to commence an action within the permitted time (e.g. usually 14 days), unless the court has ordered otherwise the Minister will typically release the goods.

While these remedies are ostensibly designed to assist copyright owners in proactively dealing with counterfeiting situations, the available relief is of limited utility because it only affords reactive rather than proactive relief.

## Design claims

As noted earlier, copyright law in Canada does not protect designs applied to certain useful articles. However, the unique appearance of such products may be protected under the *Industrial Design Act*.<sup>80</sup> This legislation defines a design as the features of shape, configuration, pattern or ornament that, in a finished article, appeal to and are judged solely by the eye. In order to obtain protection, the design's owner must apply to register it within one year after the publication of the design. Once the design is registered, it can be protected for a maximum period of ten years. During that time, only the owner is entitled to make, import for the purpose of trade or business, or sell, rent, or offer or expose for sale or rent, any article in respect of which the design is registered and to which the design or a design not differing substantially therefrom has been applied.

Like most intellectual property statutes, one of the key objectives of the *Industrial Design Act* is to protect the public against being misled into the belief that an infringing article is in fact a genuine article emanating from the owner of the design.<sup>81</sup> Thus this legislation may be relied on in counterfeiting situations where,

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<sup>78</sup> There are specific provisions dealing with the importation of books that broaden the circumstances in which a customs detention order can be sought and obtained.

<sup>79</sup> Section 44.4 contains comparable provisions regarding works such as sound recordings, performer's performance and communication signals.

<sup>80</sup> R.S.C. 1985, c. I-9.

<sup>81</sup> *Mainetti S.P.A. v. E.R.A. Display Co. Ltd.* (1984), 80 C.P.R. (2d) 206 (FCTD)

for example, the counterfeiter is selling a product like a wristwatch where the design on its face is protected by an industrial design registration. Unfortunately, while the legislation operates to preclude the importation of offending products (i.e. product reproducing the protected design), it contains no border detention provisions. Still, those engaged in manufacturing and selling “useful” consumer products with unique characteristics would be well-advised to consider protecting the unique design of their products under this legislation.

## Patent claims

A patent can cover any new and useful art, process, machine, manufacture or composition of matter, or any new and useful improvement in any art, process, machine, manufacture or composition of matter. Generally, patentable subject-matter is in the nature of a product, a process or an apparatus that has a technical and commercial objective or application.<sup>82</sup> While the *Patent Act* does not specifically define infringement, infringement occurs where someone without authority does that which only the patentee is entitled to do or otherwise “interferes with the full enjoyment of the monopoly granted.”<sup>83</sup> In terms of counterfeit goods, this could include the unauthorized manufacture, importation, sale or use of a product in Canada, such as a drug, that embodies the subject matter of the patented invention. Where goods incorporating the subject matter of a Canadian patent are imported from elsewhere, this will usually infringe the Canadian patent unless its owner approved the importation, even where a foreign patent owner authorized the product. Where the Canadian patent protects a process for making a product, the unauthorized importation of a product made abroad via that process is an infringement of the Canadian process patent.<sup>84</sup> While patent laws are not used nearly as often as trade-mark and copyright laws in counterfeiting situations, they may nonetheless be applicable and have some utility where a party in Canada is selling counterfeit product that infringes a Canadian patent.

As noted above, there are legal options available to the intellectual property rights holder faced with counterfeiting. However, unfortunately, virtually all of these options involve prior court proceedings. I have discussed below two of the key early remedies sought in such proceedings. While the aggrieved intellectual property rights holder can also seek damages and/or profits in any ultimate trial or settlement, I have not discussed those topics in this paper.

## Injunction

An injunction is an equitable remedy that directs someone to stop doing something.<sup>85</sup> Since in counterfeiting cases the intellectual property rights owner’s main goal is to stop the damaging activity, an interlocutory or pre-trial injunction is usually the most desirable remedy. Under Canadian law, an intellectual property rights owner can obtain an interlocutory injunction by showing that (a) there is a

<sup>82</sup> Barrigar in *Canadian Patent Act Annotated* (Aurora: Canada Law Book, 1997) paragraph §2:90

<sup>83</sup> *Lishman v. Erom Roche Inc.* (1996), 68 C.P.R. (3d) 72 (F.C.T.D.), affirmed 71 C.P.R. (3d) 146 (F.C.A.).

<sup>84</sup> *Farbwerke Hoechst Aktiengesellschaft vormals Meister Lucius & Bruning v. Halocarbon (Ontario) Ltd.* (1979), 42 C.P.R. (2d) 145

<sup>85</sup> Halsbury *Laws of England*, 3<sup>rd</sup> ed., volume 21, page 343

serious issue to be tried, (b) damages will not provide adequate compensation for the harm to be suffered, and (c) the balance of convenience favours granting an injunction.<sup>86</sup> I have discussed each of these requirements further below.

First, an intellectual property rights holder seeking an interlocutory injunction must show that it has a tenable claim. Of course, this is reasonable because it would be unfair to restrain an alleged counterfeiter on the basis of a frivolous claim. However, the intellectual property rights holder only needs to show that its claim raises “a serious issue to be tried.”<sup>87</sup> Practically speaking, the presiding judge will not assess the merits of the plaintiff’s complaint in any great detail.<sup>88</sup>

Second, the intellectual property rights holder seeking an interlocutory injunction must show that damages after trial will not afford adequate relief. In other words, it must show that its damages are “irreparable.” In most scenarios, irreparable harm refers to damages that cannot be calculated, quantified, cured or paid.<sup>89</sup> A few years ago, proving irreparable harm was not very difficult. The court would presume that the infringement of an intellectual property right caused irreparable harm, as in many jurisdictions.<sup>90</sup> However, the courts have abandoned the presumptive approach in Canada.<sup>91</sup> Now, the intellectual property rights holder must show via compelling evidence that it will suffer irreparable harm in order to get an injunction.<sup>92</sup> While proving irreparable harm is a challenge in any case, it is usually easier in counterfeiting cases, particularly where the defendant is using the plaintiff’s trade-mark in association with an inferior product such that the brand’s goodwill is at risk.<sup>93</sup>

Interestingly, while in some cases the courts have said that there is no need to prove irreparable harm in cases of blatant copying,<sup>94</sup> in other cases the intellectual property rights holder has failed to obtain an injunction because, in the judge’s view,

<sup>86</sup> *American Cyanamid Co. v. Ethicon Ltd.*, [1975] A.C. 396 (H.L.); *RJR-Macdonald Inc. v. Canada* (1994), 54 C.P.R. (3d) 114 (SCC)

<sup>87</sup> *Ibid.*, at page 132-33

<sup>88</sup> *Ibid.*, at pages 132-133; however, the court may engage in a more detailed assessment of the merits where it appears that the injunction will dispose of the litigation: see for example *Coca-Cola Ltd. v. Fisher Trading Co.* (1998), 25 C.P.R. (3d) 200 (FCTD) per Teitelbaum J. at page 206; *Caterpillar Inc. v. Chaussures Mario Moda Inc.* (1995), 62 C.P.R. (3d) 338 (FCTD) at page 342

<sup>89</sup> Where the counterfeiter lacks the resources to satisfy any damages that would ultimately flow from a finding of liability, the court will usually lean in favour of granting an injunction.

<sup>90</sup> *Horn Abbot Ltd. v. Thurston Hayes Developments Ltd.*, *supra*, note 80; *Jercity Franchises Ltd. v. Foord* (1990), 34 CPR (3d) 289 (FCTD); *H.J. Heinz Co. of Canada Ltd. v. Edan Foods Sales Inc.* (1991), 35 C.P.R. (3d) 213 (FCTD); *Coca-Cola Ltd. v. Fisher Trading Co.* (1988), 25 C.P.R. (3d) 200 (FCTD); *Joseph E. Seagram & Sons Ltd. v. Andres Wines Ltd.* (1987), 16 C.P.R. (3d) 481 (FCTD); *Interlego AG et al. v. Irwin Toy Ltd. et al.*, *supra*, note 70

<sup>91</sup> *Nature Co. v. Sci-Tech* (1992), 41 CPR (3d) 359, reversing (1991), 40 CPR (3d) 184 (FCTD); *Centre Ice Ltd. v. National Hockey League* (1994), 53 C.P.R. (3d) 34 (FCA)

<sup>92</sup> *Syntex Inc. v. Novopharm Ltd.* (1990), 26 C.P.R. (3d) 481 (FCTD) supplementary reasons at 27 C.P.R. (3d) 350; reversed (1991), 36 C.P.R. (3d) 129 (FCA); *Centre Ice Ltd. v. National Hockey League* (1994), 53 CPR (3d) 34 (FCA), reversing (1994), 53 CPR (3d) 34 (FCTD)

<sup>93</sup> *Northern Lights Expeditions Ltd. v. Spirit Wind Expeditions Ltd* (2001), 15 C.P.R. (4th) 134 (B.C.S.C.)

<sup>94</sup> *Gianni Versace S.p.A. et al. v. 1154979 Ontario Ltd. et al.* (2003), 28 C.P.R. (4th) 217 (Federal Court of Canada); *Jeffrey Rogers Knitwear Productions Ltd. Et Al. V. R. D. International Style Collections Ltd.* (1985), 6 C.P.R. (3d) 409 (Federal Court, Trial Division)

the counterfeiter's alleged activities did not give rise to irreparable harm.<sup>95</sup> Still, the prevailing approach seems to be that the sort of damages typically associated with counterfeiting activities (e.g. loss of control over one's goodwill and reputation) will constitute serious and irreparable harm.<sup>96</sup>

Third, the intellectual property rights holder seeking an interlocutory injunction must show a favorable balance of convenience. In this analysis, the court compares the impact of the defendant's conduct on the plaintiff against the effect of an injunction on the defendant, with a view to determining which party will suffer the greater harm by an adverse result on the injunction application.<sup>97</sup> This is a flexible exercise: there is no rigid test as to what the court can or should consider. In almost every counterfeiting case, the balance of convenience will favour the intellectual property rights owner.

Finally, an intellectual property rights holder must, as a condition precedent to obtaining an interlocutory injunction, agree to pay for whatever damages an unwarranted pre-trial injunction causes the defendant. This undertaking must be adequate in the sense that the plaintiff must have the necessary assets.<sup>98</sup> This means that the plaintiff cannot obtain an injunction without putting its own assets on the line.

Where injunctive relief is granted and the impugned activities continue, as is sometimes the case in counterfeiting cases, the intellectual property rights holder can ask a judge to hold the non-compliant counterfeiter in contempt of court.<sup>99</sup> However, a finding of contempt must be on the basis of proof beyond a reasonable doubt, and will invariably involve additional time and expense.

### The Anton Pillar order

In many counterfeit cases, in addition to stopping the impugned activities, the intellectual property rights holder is concerned about the defendant's integrity and believes that, if it sues and serves notice of its claim, the counterfeiter will destroy evidence and disappear, thus rendering the lawsuit pointless. In these situations, the usual approach is to seek an Anton Pillar order (i.e. a civil search warrant) to enable counsel to arrive unannounced and to identify and seize evidence of the counterfeiter's activities.<sup>100</sup> At the same time, counsel typically seeks an interim injunction seeking to restrain the suspected counterfeiter's activities.

There are two types of Anton Pillar orders. In the first, the identity of the defendants is known at the time the order is sought, and the plaintiff can thus adduce evidence of particular acts of infringement. In order to get such an order, the intellectual property rights holder must show that: (a) there is a strong *prima facie* case; (b) the damage it will suffer is serious; and (c) there is evidence that the

<sup>95</sup> *Castlemore Marketing Inc. v. Intercontinental Trade and Finance Corp.* (1996), 65 C.P.R. (3d) 334 (Federal Court, Trial Division)

<sup>96</sup> *Hermes Canada v. Park* (2004), 37 CPR (4th) 244 (BCSC)

<sup>97</sup> *Manitoba (A.G.) v. Metropolitan Stores (MTS) Ltd.* (1987), 38 D.L.R. (4th) 321 (SCC) at page 334; *Turbo Resources Ltd. v. Petro Canada Inc.* (1988), 22 CPR (3d) 481 (FCTD), (1989), 24 C.P.R. (3d) 1 (FCA)

<sup>98</sup> *Gonzalez v. Mark Anthony Group, Inc.* (1992), 44 C.P.R. (3d) 234 (British Columbia Supreme Court)

<sup>99</sup> *Nintendo of America Inc. v. 798824 Ontario Inc.* (1991), 34 C.P.R. (3d) 559 (FCTD); *Nintendo of America Inc. v. 798824 Ontario Inc.* (1991), 39 C.P.R. (3d) 201 (FCTD)

<sup>100</sup> *Nike Canada Ltd. et al. v. Jane Doe et al.* (1999), 1 C.P.R. (4th) 289 (Federal Court, Trial Division)

target has incriminating documents or things and that there is a real possibility of destruction of same prior to an application being made on notice.<sup>101</sup> For some judges, it is insufficient to demonstrate flagrant infringement or that persons engaged in such activities will, by their nature, conceal evidence if not seized from them by surprise. For these judges, the applicant must show a real likelihood that, if the defendants are properly served and the case proceeds in the ordinary course, evidence would be destroyed.<sup>102</sup> However, this approach has been criticized as too stringent. The prevailing wisdom is that, in satisfying this test, it is sufficient to show that the defendant has demonstrated a propensity for being dishonest.<sup>103</sup>

In considering the requirement of proving the possibility of imminent destruction of evidence, the courts have said:

It is almost impossible for an applicant to produce direct proof that a defendant will destroy the material. Generally, courts have inferred a risk of destruction when it is shown that the defendant has been acting dishonestly, for example where matter has been acquired in suspicious circumstances, or where the defendant has knowingly violated the applicant's rights.<sup>104</sup>

With respect to the requirement to prove serious harm, this does not mean that the intellectual property rights holder must show that damages would be an inadequate remedy at trial, which could limit the scope of the order. Very often, the plaintiff points to the fact that it cannot control the quality of the products being used with its brand to satisfy the requirement to show serious harm.<sup>105</sup> In addition, the plaintiff might allege that the goodwill its brand will invariably suffer due to counterfeiting constitutes serious harm.<sup>106</sup> Also, the plaintiff may argue that its inability to prove its case at trial should the infringing material be unavailable constitutes serious harm.<sup>107</sup>

In the second type of Anton Pillar order, the identity of the defendants is unknown and there is little information available about the infringing activities. In these cases, which are launched against anonymous defendants, the plaintiff will have to show that it is suffering irreparable harm because of someone's manufacture and sale of counterfeit merchandise. These are generally referred to as rolling Anton Pillar orders, and are used to address counterfeiting involving street vendors, flea markets, etc. Very often, the orders are later served on small-scale vendors as they are discovered and their goods are seized as evidence. While the seized property is technically held as evidence, the effect of the seizure is very often to stop the vendor's business while the legal proceedings unfold.

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<sup>101</sup> *Anton Piller K.G. v. Mfg. Processes Ltd.*, [1976] 1 All. E.R. 779 (C.A.); *Bardeau Ltd. et al. v. Crown Food Service Equipment Ltd. et al.* (1982) 36 O.R. (2d) 356; Professor Sharpe, *Injunctions and Specific Performance*, Canada Law Book Inc., Aurora, see generally pages 2-65-2-66

<sup>102</sup> *Nintendo of America, Inc. v. Coinex Video Games Inc. et al.*, see order dated December 9, 1982 -- court file No. T-9207-82, unreported

<sup>103</sup> *Nintendo of America, Inc. v. Coinex Video Games Inc. et al.* (1982) 69 C.P.R. (2d) 122 Federal Court of Appeal, per Heald and Urie JJ. and Cowan D.J.

<sup>104</sup> *Capitanescu et al. v. Universal Weld Overlays Inc. et al.* (1996), 71 C.P.R. (3d) 37 (Alberta Court of Queen's Bench) per Paperny J.

<sup>105</sup> *Viacom Ha! Holding v. Jane Doe* (2000), 6 CPR (4th) 36 (FCTD)

<sup>106</sup> *Culinar Foods v. Mario Food Products* (1987) 2 FC 53 (FCTD)

<sup>107</sup> *Capitanescu et al. v. Universal Weld Overlays Inc. et al.* (1996), 71 C.P.R. (3d) 37 (Alberta Court of Queen's Bench) per Paperny J

In order to obtain such an order, certain evidence is required.<sup>108</sup> Since the order is viewed as an extraordinary and intrusive remedy, the evidence will be carefully scrutinized. Typically, the plaintiff will have to file an affidavit from someone with personal knowledge of the issues at hand demonstrating: (a) a number of actual instances of counterfeiting; (b) some proof that the merchandise at issue is counterfeit; (c) damage to the plaintiff's goodwill (e.g. general statements about the effect of counterfeiting on the value of the plaintiff's intellectual property); and (d) evidence of a widespread problem if a national order is sought.

In terms of process, the plaintiff usually adds someone as a defendant after a search discloses evidence of counterfeiting, and thereafter obtains an injunction against them and an award of costs. The parties ultimately served with these rolling orders rarely appear in court to challenge the case against them; rather, the plaintiff later obtains a judgment in default or via consent. While this is relatively straightforward, it does take time and cost money. Moreover, it is a largely reactive response to counterfeiting.

While rolling Anton Pillar orders can be relatively easy to obtain in counterfeiting cases, the courts have imposed certain responsibilities on those seeking these orders, with a view to ensuring that they are not abused, which can happen because the targets are unrepresented.<sup>109</sup> Primarily, the plaintiff is usually required to prepare a detailed list of all of the goods seized and to: (a) serve the list on the person from whom the goods are seized, and (b) produce the list in a later motion to the court seeking to review and approve the execution of the order. It is at this approval motion that plaintiff's counsel will seek to formally add those who have been served with the rolling Anton Pillar order as defendants and to continue any injunctive relief earlier obtained. In addition, the plaintiffs will usually seek and obtain an order for some compensation for its legal costs associated with all proceedings to date. Since the defendants seldom attend to challenge these motions, they are not overly difficult to obtain. However, where the plaintiff has failed to comply with its responsibilities, the presiding judge may reject the plaintiff's request for this various relief and even vacate the previous orders granted.

At least some judges, in order to ensure that defendants are properly protected by these extraordinary orders, will require that the plaintiff retain independent counsel to act as a supervising solicitor or amicus curiae, chosen by the court, to monitor the execution of these orders.<sup>110</sup> In addition, some judges have expressed concern with the practice of joining or coordinating the execution of a civil Anton Pillar orders with parallel criminal investigations and proceedings.<sup>111</sup>

<sup>108</sup> *Club Monaco Inc. v. WoodyWorld Discounts* (1999), 2 C.P.R. (4th) 436 (Federal Court, Trial Division)

<sup>109</sup> *Nike Canada Ltd. et al. v. Jane Doe et al., Fila Canada Inc. v. Jane Doe et al., Walt Disney Co. (Canada) Ltd. et al. v. Jane Doe et al., Time Warner Entertainment Co., L.P. v. Jane Doe et al., GTFM, Inc. et al. v. John Doe et al., Viacom Ha! Holding Co. et al. v. Jane Doe et al., Ragdoll Productions (UK) Ltd. et al. v. Jane Doe et al., Adidas-Salomon AG et al. v. Jane Doe et al., Nintendo of America Inc. et al. v. Jane Doe et al.* (1999), 1 C.P.R. (4th) 289 (Federal Court, Trial Division) at pages 293

<sup>110</sup> *Nike Canada Ltd. et al. v. Jane Doe et al., Fila Canada Inc. v. Jane Doe et al., Walt Disney Co. (Canada) Ltd. et al. v. Jane Doe et al., Time Warner Entertainment Co., L.P. v. Jane Doe et al., GTFM, Inc. et al. v. John Doe et al., Viacom Ha! Holding Co. et al. v. Jane Doe et al., Ragdoll Productions (UK) Ltd. et al. v. Jane Doe et al., Adidas-Salomon AG et al. v. Jane Doe et al., Nintendo of America Inc. et al. v. Jane Doe et al.* (1999), 1 C.P.R. (4th) 289 (Federal Court, Trial Division) at pages 293

<sup>111</sup> *Nike Canada Ltd. et al. v. Jane Doe et al., Fila Canada Inc. v. Jane Doe et al., Walt Disney Co. (Canada) Ltd. et al. v. Jane Doe et al., Time Warner Entertainment Co., L.P. v. Jane Doe et al., GTFM, Inc. et al. v. John Doe et al., Viacom Ha! Holding Co. et al. v. Jane Doe et al., Ragdoll Productions (UK) Ltd. et al. v. Jane Doe et al., Adidas-Salomon AG et al. v. Jane Doe et al., Nintendo of America Inc. et al. v. Jane Doe et al.* (1999), 1 C.P.R. (4th) 289 (Federal Court, Trial Division) at pages 293

The party seeking the Anton Pillar order should appreciate that, if it later turns out that its case was unfounded, it could be held responsible for certain damages and costs.<sup>112</sup> This recently happened in a case involving cigars.<sup>113</sup> In that case, the plaintiffs sued certain unnamed parties for allegedly dealing in unauthorized or counterfeit cigars. As is required, the plaintiffs agreed to comply with any later court order with respect to damages that might arise from the unauthorized execution of their Anton Pillar order or from the setting aside of the order. Ultimately, the order was served on a business at which no counterfeit cigars were seized. Thereafter, the plaintiffs added that business and its owners as defendants. When the plaintiffs later sought to discontinue the action against these defendants, they were held liable for their associated legal costs.

On a final note, the intellectual property rights holder must be as candid as possible in the evidence filed in support of the Anton Pillar order.<sup>114</sup> This requirement for “full and frank disclosure” applies to virtually all such applications where relief is sought without affording the adverse party an opportunity to respond. While this obligation is limited to that which is relevant to the matters at hand, the intellectual property rights holder should appreciate that a failure to disclose relevant facts, particularly where they are not helpful, can jeopardize the ultimate viability and survival of any order obtained.

### The International Anti-Counterfeiting Coalition’s 2005 Submission to the United States’ Trade Representative

As noted above, the quality of legal anti-counterfeiting measures in Canada is disappointingly weak. In fact, the situation is sufficiently dire that, while Canada is not considered a hotbed of counterfeit manufacturing, the IACC recently asked that Canada be named a Priority Foreign Country along with China (the only two countries selected for this dubious distinction) in its most recent submission to the United States Trade Representative (USTR).<sup>115</sup> Prior to that, Canada had been on a watch list of countries with perceived counterfeiting issues. However, the situation has now become sufficiently visible and, perhaps, the perceived lack of will to change so great, that Canada is grouped by the IACC with China, the epicenter of global counterfeiting. To acknowledge this as a dubious distinction would be an understatement, to say the least.

By way of background, section 182 of the U.S. Trade Act of 1974<sup>116</sup> allows the USTR to identify “priority foreign countries” that violate U.S. intellectual property rights. Under this section (also known as Special 301) the USTR may initiate a Section 301 investigation of countries that fail to provide adequate protection to U.S. intellectual property rights. The USTR may try to negotiate the end of such violations with these countries and may even recommend retaliatory measures. The IACC request that Canada be identified as a Priority Foreign Country reflects a real frustration with the legal status quo. While Canada is not viewed as major source of counterfeit products,

<sup>112</sup> *Club Monaco Inc. v. WoodyWorld Discounts* (1999), 2 C.P.R. (4th) 436 (Federal Court, Trial Division)

<sup>113</sup> *Havana House Cigar & Tobacco Merchants Ltd. et al. v. Jane Doe et al.* (2000), 9 C.P.R. (4th) 1 (FCTD), affirmed 17 C.P.R. (4th) 414 (FCA)

<sup>114</sup> *Fila Canada v. Jane Doe* (1996), 68 CPR (3d) 1

<sup>115</sup> IACC Submission to the USTR, February 11, 2005.

<sup>116</sup> As amended by section 1303 of the Omnibus Trade and Competitiveness Act of 1988 (P.L. 100-418)

IACC members are clearly frustrated with its protection and enforcement system. In particular, the IACC expressed a high level of disappointment with the absence of any meaningful border enforcement measures in Canada. The IACC concluded that, with the exception of efforts by the RCMP, there was no visible movement by the Canadian Government to initiate any meaningful steps to implement an effective IP enforcement system to address counterfeiting activities. The IACC said that:

Indeed, the level of right holder frustration has risen to the point where some IACC members believe that the ability of obtaining enforcement assistance in China is much better than any chance of meaningful enforcement in Canada.<sup>117</sup>

Aside from other perceived problems with Canadian laws, the key complaint with the present Canadian system is that it provides no effective means of border enforcement to allow potential counterfeit goods to be seized and inspected prior to release, as is the case in many other countries. Thus it is relatively easy for counterfeit goods to enter Canada without any real risk of detection. Certainly, the numbers seem to support this. Whereas over the past 8 years the U.S. authorities have seized more than 37,000 shipments of counterfeit goods, it appears that less than 12 seizures have taken place in Canada during the same period.<sup>118</sup>

Seemingly, the lack of enforcement measures has allowed counterfeit products in a variety of sectors to enter Canada, for consumption here or for export and consumption elsewhere. Certainly, the authorities appear to have seen a marked increase in the presence of counterfeit products in flea markets, with street vendors, at shopping malls, in replacement parts channels, etc. It is likely that, given rather impotent enforcement measures in place, a good deal of counterfeit activities are now taking place with relative freedom in Canada.

In addition to the lack of meaningful laws to combat counterfeiting and the lack of involvement of border officials, police organizations like the RCMP lack the manpower to investigate or pursue many suspected counterfeiters, even where the intellectual property rights holder can develop the evidence necessary to establish that its rights are being violated in a way that warrants prosecution.

Frankly, the IACC believes that the Canadian government lacks any real will to design effective legislation and/or to empower its authorities to combat intellectual property theft at the borders or within the domestic market. In its view, Canada's lack of action reflects an attitude that we should let others take on the challenge of combating this global problem. In support, it cites the actions taken by other jurisdictions and points to the lack of corresponding action in Canada to improve its enforcement regime. When one compares the Canadian system with the measures available elsewhere, it is difficult to argue with the IACC.

In its 2005 report, the IACC has asked the USTR to compel evidence of Canada's efforts to improve its enforcement system, including: (a) the adoption of policies to recognize intellectual property protection and enforcement as a priority; (b) the implementation of an effective border enforcement system that eliminates the need to obtain prior court orders and that gives customs the authority to provide product samples to intellectual property rights holders for inspection and to compel

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<sup>117</sup> *ibid* page 8

<sup>118</sup> *ibid* page 8

disclosure of information regarding importers, exporters, country of origin, etc.; (c) the adoption of an enforcement system that provides for ex officio actions; (d) the enactment of clear provisions that provide for the seizure, forfeiture and destruction of counterfeit goods wherever located; (e) the issuance of guidelines and policies to enable government and law enforcement to exchange information regarding suspect goods and shipments; (f) increased anti-counterfeiting resources for the authorities, including customs and the RCMP; and (g) the development of judicial and administrative penalties to better deter counterfeiting and piracy.

The IACC and others make a compelling case for change by looking at the weaknesses in the Canadian system. That alone should be sufficient to warrant action. Moreover, when one looks at Canada's international undertakings to put in place adequate border protection systems, it appears an obligation to make changes may already exist.<sup>119</sup> While Canada purported to comply with these obligations via amendments to existing legislation and through the enhancement of civil remedies, many remain dissatisfied with the Canadian response, because it still requires them to enforce their rights reactively on a case-by-case basis and does not give border authorities the broad powers that exist elsewhere, as discussed below. One could thus argue that Canada's anti-counterfeiting systems are so weak that the country is not in compliance with its international undertakings and obligations.

### Other jurisdictions

Many jurisdictions have developed border enforcement measures that allow intellectual property rights holders to arrange for custom seizures without first obtaining civil court orders, which facilitates the timely and efficient enforcement of rights and relatively strong market protection. While these sorts of measures exist in many jurisdictions, I have reviewed just a few representative examples below with a view to further highlighting the relative weakness of the Canadian systems.

In the U.S., in addition to the traditional legal remedies available to combat anti-counterfeiting, the U.S. Bureau of Customs and Border Protection (BCBP)<sup>120</sup> runs its own program and can deny entry to products that appear to infringe recorded intellectual property rights. To gain protection, the intellectual property rights holder must record its rights by sending to the BCBP: (a) a copy of the certificate of registration; (b) a list of foreign authorized manufacturers and licensees;<sup>121</sup> and (c) an official fee of \$190 per class. After this, BCBP enters the intellectual property into a database and monitors inbound goods for possible counterfeiting. Where goods appear to infringe a recorded right, the BCBP will seize them and issue a notice to the importer and the intellectual property rights owner. There is no need to go to court first. Thereafter, the importer can initiate proceedings to recover the captured product, failing which the goods will be destroyed or entry will be refused.<sup>122</sup> In other words, the onus is on the importer to establish that its goods are authentic and should be released. Not surprisingly,

<sup>119</sup> For example, see the 1994 North American Free Trade Agreement (NAFTA) and similar international agreements.

<sup>120</sup> Formerly known as the U.S. Customs Service

<sup>121</sup> This information enables the BCBP to determine whether goods bearing a recorded trade-mark are legitimate grey market goods produced by or with the authorization of the trade-mark owner.

<sup>122</sup> In the U.S., intellectual property rights holders will typically and proactively educate customs officials about their trade-marks and products, in order to assist them in identifying and seizing counterfeit goods.

those who are trying to import counterfeit goods are not anxious to initiate court proceedings to obtain recovery of the suspect goods. The advantages for the intellectual property rights holder are rather obvious. Under this system, for a small fee, the intellectual property rights holder can engage customs officials to monitor the U.S. border for suspected counterfeit goods. Moreover, these authorities have a great deal of authority in terms of both seizing and destroying counterfeit goods. After seizure, the importer has the obligation to start proceedings to recover the suspect goods.

In addition to the BCBP regime, intellectual property rights holders in the U.S. can launch anti-counterfeiting proceedings against foreign companies before the United States International Trade Commission (“ITC”). To commence an ITC action, the complainant must either own or be an exclusive licensee of the intellectual property right at issue. While these proceedings are more complex than the BCBP proceedings, they can be useful to address more significant counterfeiting problems. Moreover, the proceedings can be more expeditious than civil litigation, since they are supposed to be completed expeditiously. In many cases, the goal is to have the issues resolved within 12-months. The ITC can impose a broad range of remedies, including the issuance of exclusion orders barring the entry of goods.

In the United Kingdom, the owner of a registered trade-mark can file a Customs Notice based on its registration. This requires the trade-mark owner to submit proof of registration as well as additional information, such as: (a) details of any known differences between legitimate and counterfeit goods; (b) the particulars of any known counterfeiting activities; (c) the contact information for a contact person(s) for product assessment in the event of a seizure; (d) a written undertaking to pay the costs incurred by customs in keeping goods under its control; (e) a written undertaking to be responsible for any liability towards an alleged infringer if seized goods are later found not to be non-infringing; and (f) a letter of authority appointing counsel to act in relation to any action that customs may take. Under this system, because the identification of counterfeit product is of paramount importance, great efforts are made to train customs officials to spot suspicious goods by, for example, identifying known sources of counterfeit products and explaining any typical indicators of counterfeit goods.

In Germany, comparable measures are available to facilitate the seizure of counterfeit goods without prior resort to the civil courts. Under this system, the trade-mark owner submits an application for recordal along with: (a) proof of its registered trade-mark; (b) a description of the genuine goods and means of identification; (c) identification of the usual channels of trade, including companies involved in making or importing genuine goods; (d) images or a description of infringing goods, along with information regarding those involved in related activities; and (e) the name of a contact person for German Customs to contact in the event of a seizure to assess the seized goods and/or to provide instructions. As in the U.K., the success of this system rests heavily on educating customs officials to detect counterfeit goods. In the event of a seizure, the intellectual property rights holder has various options and remedies available to it.

In the European Union, intellectual property rights holders can lodge a Customs Notice to protect registered trade-marks from counterfeiting. This involves recording the trade-mark with select customs offices around Europe, in a manner similar to that described above.

In China, intellectual property rights holders can register their rights with the General Customs Administration of China and thus empower the authorities to detain or inspect goods to be exported from or being imported into China. As in most countries, this involves providing certain information and proof of ownership of the relevant intellectual property right, as described above. As with the systems elsewhere, in the event customs officials become aware of an infringing shipment, they will contact the intellectual property rights holder and seize and preserve the cargo pending further action.

Without question, these systems are much better than what is available in Canada, where the intellectual property rights holder must gather intelligence, develop its evidence, initiate legal proceedings, post security, and, hopefully, obtain a court order prior to customs having the ability to seize counterfeit goods. Moreover, the intellectual property rights holder in Canada must ultimately pursue its legal proceedings through to a judgment on the merits absent an earlier settlement or the infringer's failure to participate (which could result in a default judgment).

## Conclusion

As the reader will have seen, counterfeiting is a growing problem that creates serious health risks and has a substantial effect on many industries. Historically, those doing business in Canada have sought to address counterfeiting via traditional civil remedies that are expensive, time-consuming and cumbersome. Moreover, these traditional remedies are largely ill suited to preventing counterfeiting activities, as they are reactive and have little proactive utility. Whereas Canadians largely view their legal systems and processes as relatively sophisticated, it is clear that, when it comes to counterfeiting, these legal processes are rather basic and fall far short of the emerging standards in the global community.

There is no secret regarding what needs to be done. Canada needs only to look to the legal systems and experiences elsewhere in developing efficient and proactive anti-counterfeiting measures. At the very least, Canada must adopt border enforcement measures that allow intellectual property rights holders to register or record their rights with the CCRA and to thereby engage the assistance of customs to help prevent the entry of counterfeit goods into the Canadian market, without the need for first seeking court approval. In the writer's view, Canada will continue to lag far behind other developed countries and, arguably, remain non-compliant with its various treaty and convention obligations unless it revamps its border enforcement rules and procedures to allow for proactive customs seizures and detention. Unless better anti-counterfeiting measures are available, the IACC and others will continue to be vocal critics of Canada's weak anti-counterfeiting systems.