

**Submission on
Modernization of *Trade-marks Act*:
Product Counterfeiting**

**INTELLECTUAL PROPERTY LAW SECTION
CANADIAN BAR ASSOCIATION**



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PREFACE

The Canadian Bar Association is a national association representing 34,000 jurists, including lawyers, notaries, law teachers and students across Canada. The Association's primary objectives include improvement in the law and in the administration of justice.

This submission was prepared by the National Intellectual Property Law Section, particularly the Counterfeiting and Trade Offences Committee, with assistance from the Legislation and Law Reform Directorate at the National Office. The submission has been reviewed by the Legislation and Law Reform Committee and approved as a public statement of the National Intellectual Property Law Section of the Canadian Bar Association.

Submission on Modernization of *Trade-marks Act*: Product Counterfeiting

I. INTRODUCTION

The National Intellectual Property Law Section of the Canadian Bar Association (the CBA Section) welcomes the opportunity to comment on the Canadian Intellectual Property Office's (CIPO) consultation paper on modernization of the *Trade-marks Act*.¹ The CBA Section supports the maintenance of a modern and efficient trade-mark regime as a critical element of any modern marketplace.

We believe that CIPO's current assessment of Canada's trade-mark regime is also an opportune time to review the anti-counterfeiting laws in Canada. Our submission will focus on the issue of counterfeiting in Canada and we support the enactment of a comprehensive regime to fight counterfeiting in the context of the modernization of the *Trade-marks Act*.

The CBA Section's submission will discuss the following issues:

- The current problem of counterfeiting and need for reform
- Impact of counterfeiting in Canada
- Ineffectiveness of criminal law, civil law, and border enforcement
- Recommended reforms
- Specific reform of the *Trade-marks Act*

The recommendations on the issue of border enforcement also address information sharing and cooperation with intellectual property owners.

The CBA Section's recommendations are preliminary comments as we recognize the need for broad consultation among all stakeholders.

II. COUNTERFEITING AND NEED FOR REFORM

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

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

III. IMPACT OF COUNTERFEITING IN CANADA

- Economic

The current Canadian market in counterfeit products is estimated to be \$20-30 billion annually.² Distribution of counterfeit products has a negative impact on tax revenues, legitimate business profits for manufacturers, distributors and

retailers, brand value, employment and generally a significant loss from legitimate markets to the underground or black market.

- Criminal Element

Links have been established to organized crime and terrorist organizations,³ which is not unexpected in view of the high profit and low risk nature of product counterfeiting.

- Health and Safety

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

- Treaty Obligations

Canada's international obligations under the General Agreement on Tariffs and Trade (GATT), Trade-Related Aspects of Intellectual Property Rights (TRIPS) Agreement and North American Free Trade Agreement (NAFTA) are to provide effective criminal enforcement against willful trade-mark counterfeiting on a commercial scale, as well as to implement border measures to prevent the importation of counterfeit goods. Existing Canadian legislation does not meet these obligations. The ineffectiveness of the Canadian system is exemplified by Canada being on the United States Trade Representative's (USTR) "Special 301 Watch List" based on the inadequacies in criminal enforcement against intellectual property crime and lack of effective border enforcement. In March 2005, the International Anti-Counterfeiting Coalition issued a report asserting that China provides better enforcement than Canada and pushing for Canada to be placed on the USTR "Priority Watch List".⁴

³ *The links between intellectual property crime and terrorist financing*, public testimony of Ronald K. Noble, Secretary General of Interpol, before the United States House Committee on International Relations, One hundred eighth Congress (July 16, 2003), at <http://www.interpol.int/Public/ICPO/speeches/SG20030716.asp?HM=1> (last accessed May 26, 2005); IACC White paper on the Negative Consequences of International IP Theft, January 2005, at [www.iacc.org/white paper.pdf](http://www.iacc.org/whitepaper.pdf) (last accessed May 26, 2005).

⁴ IACC, Submission of the International AntiCounterfeiting Coalition to the United States Trade Representative, Special 301 Recommendations, February 11, 2005, available at www.iacc.org/2005-301.pdf (last accessed on May 26, 2005).

IV. INEFFECTIVENESS OF CRIMINAL AND CIVIL LAW

A. Inadequacy of Criminal Law

Canada's criminal offences directed against the manufacture, distribution and sale of products displaying counterfeit trade-marks are inadequate. Criminal trade-mark proceedings are seldom used by law enforcers or prosecutors, the preference being to proceed under copyright law, even in cases where the offence primarily relates to reproduction of trade-marks. For instance, in two recent cases regarding counterfeit soccer team logos on jerseys⁵ and counterfeit certification marks on electrical products,⁶ charges were laid under the *Copyright Act* and no charges were laid under any trade-mark related sections.

The only criminal offences specifically addressing trade-mark counterfeiting are sections 406-412 of the *Criminal Code* covering forgery of trade-marks and trade descriptions. These offences are difficult to enforce, with the result that prosecutors are generally reluctant to proceed under these sections, as exemplified by the examples in the last paragraph. The *mens rea* requirement under section 408(a), the only section specifically directed against distribution of counterfeit products, is especially difficult to satisfy.⁷ This provision has been construed by the courts to require intent to sell the products to purchasers who believe the products are legitimate. The reality is that, in the distribution of such products, retailers will often purchase from distributors knowing that the products are counterfeit. Another difficulty is the lack of any provision making it an offence to import such products.

B. Limited Effectiveness of Civil Enforcement

Civil enforcement is seldom effective against trade-mark counterfeiting, because:

- Civil enforcement is expensive.
- Limited records are available.
- Damages are difficult to prove.

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

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

7 See *R.v. Ferjo* (1994), 58 C.P.R. (3d) 223 (Ont.C.A.).

- Only stock-in-hand of the products is available to be seized.
- Few realizable assets are in the hands of the companies or individuals named as defendants in the proceedings.

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

C. Border Enforcement

Most counterfeit goods sold in Canada are imported. Yet counterfeit goods are not prohibited items under the *Customs Act* and there is no criminal offence against importing goods bearing counterfeit trade-marks.

Sections 52 - 53.3 of the *Trade-marks Act* establish civil procedures to deal with importation of products using counterfeit trade-marks. These require a court order to effect detentions, and commencement of an action to determine the legality of importation. The civil procedures are rarely used, as the information required to obtain a court order is seldom available prior to importation and release of the products, and the cost of proceeding often exceeds any likely monetary recovery. Information may only be available to customs officials who, due to restrictions under privacy legislation, are unable or unwilling to share the information with intellectual property owners.

V. RECOMMENDED REFORM

The CBA Section recommends two alternative approaches to better protect against counterfeit goods:

New Legislative Framework

The most effective way to improve anti-counterfeiting laws would be to enact new legislation with a complete framework for civil, administrative and criminal procedures and offences. This would include cost effective seizure and forfeiture of counterfeit (and pirated) products and imposition of appropriate penalties.

Amendments to Existing Legislation

Alternatively, amendments to the *Copyright Act*, *Customs Act*, *Customs Tariff*, *Criminal Code* and the *Trade-marks Act* could provide effective enforcement through civil, administrative and criminal law at the border and domestically.

Reform of the *Trade-marks Act*

In the context of reform of the *Trade-marks Act*, we recommend amendments to:

- Define the prohibited activity;
- Prescribe offences for manufacture, commercial importation and distribution of counterfeit products;
- Provide authority to seize counterfeit products;
- Provide simple, inexpensive, administrative procedures for destruction of counterfeit products;
- Enact border measures to mandate and facilitate *ex officio* detection, seizure and destruction of imported counterfeit products by customs officers;
- Deal with jurisdictional issues in respect of administrative and criminal enforcement and prosecution;
- Provide for disclosure of information to and cooperation with intellectual property owners; and
- Provide summary civil proceedings for clear cases of product counterfeiting and piracy.

VI. PROPOSED REFORMS TO THE *TRADE-MARKS ACT*

These are preliminary recommendations, recognizing the need for broad consultation to arrive at appropriate definitions, penalties and defences.

A. Defining the Prohibited Activity

As a practical matter, civil enforcement is not effective against criminal trade-mark counterfeiting. On the other hand, criminal enforcement is not well adapted to settling disputes between competing traders. Thus, the scope of the prohibition should be limited to clear cases of commercial product counterfeiting.

Civil proceedings and the existing trade-mark law are best suited to marginal cases such as non-commercial cases or where there is arguable colour of right.

No clear distinction has been made between civil and criminal infringement of intellectual property in Canada. Creating a definition of “counterfeit products” may assist by clearly defining the bounds of criminality. The CBA Section submits that criminality be established when it is proven that the products have been manufactured or labeled to appear to be a product manufactured by (or under the control or approval of) an entity that did not in fact manufacture (or control or approve the manufacture of) the product. Thus, criminal enforcement should be reserved for products that are deceptive copies of existing products or blatantly reproduce known logos or brands. Situations where there is arguable colour of right should generally be left to civil enforcement, such as where intent to copy or deceive is only arguable.

B. Offences for Commercial Manufacture, Reproduction, Importation and Distribution

(i) What should be a criminal offence?

The CBA Section recommends making it a criminal offence to manufacture, reproduce, import or distribute counterfeit products for commercial purposes. Whether at wholesale or retail, the *actus reus* of the offence would be performing the prohibited acts or possession of counterfeit products for the purpose of commercial distribution. The *mens rea* would be knowledge that the products reproduce trade-marks without authorization by the owner, or willful blindness to that being the case. That the purchasers bought the products not knowing they were counterfeit would not be a defence as it currently is under s. 408(a) of the *Criminal Code*. Available defences may, however, include invalidity of the trade-mark rights, non-infringement, and direct or indirect consent from the intellectual property owner in Canada or in the country where the products were manufactured. Significant penalties including fines and imprisonment should attach, to ensure that the activity is not profitable.

(ii) What should be a strict liability offence?

The CBA Section recommends creation of a strict liability offence where the counterfeit nature of the products being marketed is clear but knowledge or willful blindness cannot be proven beyond a reasonable doubt. The recommended offence would be a regulatory offence providing for issuance of tickets prescribing set fines. Lesser penalties than those provided for in the criminal offence would be prescribed.

(iii) What devices should be prohibited?

It should be an offence to manufacture, distribute, use and possess implements, materials or devices whose primary purpose is to facilitate trade-mark counterfeiting. These would include unauthorized copies of logos, including digital copies, as well as dies, silk-screens and other materials, implements and devices adapted to forge trade-marks or prepare counterfeit packaging and labeling.

C. Seizure and Destruction: Summary Administrative Procedures

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

The CBA Section recommends detention and forfeiture, subject to a summary review procedure where owners of the goods may object to forfeiture. If the owners did not object within a short notice period, forfeiture would be automatic. Trade-mark owners should be able to seek an order for payment of reasonable costs incurred in assisting government authorities establish the counterfeit nature of the counterfeit products. Similarly, consideration may be given to recovery of costs by the Crown for its dealings with forfeited counterfeit products.

D. Jurisdictional Issues

Amendments to the legislation should address the following jurisdictional issues:

(i) Enforcement

All “peace officers” (as defined in the *Criminal Code*) should have authority to seize counterfeit products and to lay charges under the *Trade-mark Act*. The Act should encourage reporting all seizures immediately to the RCMP, preferably before notice of detection is given to the owner/importer of the suspect property.

(ii) Prosecution

Authorization should be granted to the federal, provincial and territorial attorneys general to prosecute offences under the act.

(iii) Venue

Jurisdiction should be expressly provided to Provincial Court, Superior Court and Federal Court judges. The *Competition Act* (section 73) should permit prosecution in Federal Court with appeal to the Federal Court of Appeal. Although the Federal Court has limited criminal jurisdiction, its expertise on intellectual property would likely make it the court of choice for prosecuting major cases.

E. Civil Remedies: Summary Proceedings

The CBA Section recommends summary proceedings for intellectual property owners to recover reasonable costs expended in investigating and assisting in prosecution of counterfeiting offences from the perpetrators. This would be a civil proceeding subject to proof on a balance of probabilities. Liability would flow from the conviction of an offence or the ownership or responsibility for importation of forfeited products. The onus would be on the intellectual property owner to establish the conviction, ownership or responsibility for importation, and the recoverable costs.

The CBA Section also recommends a summary civil procedure for trade-mark owners with a cause of action against individuals or companies dealing commercially in counterfeit products. Civil causes of action already exist under

general trade-mark law, but we recommend a separate cause of action with significant statutory damages for proven possession for commercial distribution and commercial distribution of counterfeit products. Remedies such as interim and interlocutory injunctions and seizures should be available.

F. Improved and Effective Border Measures

(i) Mandate of Canada Border Services Agency (CBSA)

One of the primary aims of reform must be to give the CBSA a clear mandate to prevent importation of counterfeit products. The current system to enforce trade-mark rights at the border simply does not work.

(ii) Recordation Systems

The use of recordation systems, where intellectual property owners record their rights with customs authorities, has proven effective in combating product counterfeiting in the United States, Australia, and the European Union, and can serve as models for Canada.

(iii) Suggested Border Enforcement System

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

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

G. Providing Information to and Cooperation with Intellectual Property Owners

(i) Information from Trade-mark Owners

We suggest provision of and access to information on counterfeit products from trade-mark owners to enforcement officers in Canada. The information shared should be treated as privileged and confidential.

(ii) Information to Trade-mark Owners

Information on suspect products often must be disclosed to trade-mark owners, as cooperation of trade-mark owners will normally be required to establish the counterfeit nature of the products in question. Information as to the source and recipient of imported products may also be necessary to establish that the products are counterfeit. Peace officers should be able to provide specified information and samples of products to intellectual property owners, recognizing that the customs information or information obtained through investigations may otherwise be subject to privacy constraints.

(iii) Proof of Counterfeit Nature of Products

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

(iv) Press releases: Consultation with owners

The CBA Section recommends consultation with the intellectual property owner before government authorities issue public announcements about counterfeit products. The intellectual property owner should have an opportunity to raise concerns about publicity surrounding the counterfeiting of its products. This will take into account the damage that publicity concerning distribution of counterfeit products may do to the goodwill associated with a brand, especially when counterfeit products are distributed that raise health and safety, quality or other concerns.

VII. CONCLUSION

In the context of the present review of the *Trade-marks Act*, the CBA Section recommends enactment of a comprehensive anti-counterfeiting regime. If that recommendation is not followed, then at least a provision similar to section 42 of the *Copyright Act* should be included in the *Trade-marks Act*. With proper drafting, a criminal offence in the *Trade-marks Act* would overcome some existing jurisdictional and practical issues of enforcement. These issues arise because importation of counterfeit products is not currently an offence, the existing *Criminal Code* sections are outdated and, by custom, are under provincial prosecution authority.

Reform is urgently needed to deal effectively with the manufacture, importation, distribution and sale of counterfeit products in Canada. Any revision of the *Trade-marks Act* must address the serious problems with Canada's enforcement against counterfeiting of trade-marks.

The CBA Section looks forward to dialogue with CIPO on these recommendations.