

STRENGTHENING ANTICOUNTERFEITING

LAWS and PROCEDURES

in

CANADA

Canada Task Force

INTA Anticounterfeiting Committee

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I. Introduction: The Harms of Counterfeits

Counterfeiting is the most serious form of trademark infringement impacting economies and the health and safety of the public. Recent reports estimate that the trade in counterfeit (and pirated) goods is as much as \$600 billion¹. Counterfeiting and piracy in Canada are worth approximately \$20 - 30 billion annually². Counterfeit goods exist in a number of Canadian markets including consumer electronics, automotive parts, luxury goods (clothing, footwear, cosmetics, and accessories), the entertainment industry (motion pictures, videos, music), and pharmaceuticals.

The exponential growth in counterfeits in Canada has far-reaching effects. The Canadian government loses tax revenue on counterfeit goods. Legitimate trademark owners in Canada lose sales revenue as a result of counterfeit products. The goodwill associated with well-known brands suffers due to the consumers' false association of the brand's products with the inferior quality of the counterfeits. Moreover, the health and safety of Canadian consumers are at risk if they purchase counterfeit goods, which are often of substandard quality compared to the genuine product. When making purchases online, consumers are often cheated into believing that they are buying from a legitimate retailer but receive fake and possibly harmful goods from an illegitimate source.

Counterfeit goods in Canada create substantial health and safety risks since they are not subject to consumer product safety standards such as those required for a certification mark. This is especially true in the case of pharmaceutical, electrical and oil products. Also, fake mechanical components for engines and brakes can result in serious accidents and are a threat to aviation safety and other modes of public transportation. Just in the last year, Canada's National Defense Department has confirmed that counterfeit parts have been found in the cockpit of Royal Canadian Air Force transport planes.

II. Key Concerns Regarding Canada's Anticounterfeiting Efforts

While Canada has made some improvements in its anticounterfeiting efforts, insufficient resources for police and customs enforcement, as well as the lack of explicit legal provisions to make the sale and distribution of counterfeits a crime, seriously impede a more effective enforcement regime against counterfeiting.

Customs and border enforcement are the first line of defense in halting the flow of counterfeit goods into Canada. However, the customs enforcement regime set out in the *Canadian Customs Act* does not allow for customs authorities to seize goods at the border *ex officio*. Instead, customs officials can seize suspected counterfeit goods only if: 1) a court order is obtained by the trademark owner authorizing Customs to stop the goods; or 2) a directive is provided to Customs by the Royal Canadian Mounted Police (RCMP).

¹ Presentation to the House of Commons Standing Committee on Industry, Science & Technology by Jayson Myers, Senior Vice President & Chief Economist, Canadian Manufacturers & Exporters, May 7th, 2007

² *ibid*

While section 53 of *Trade-marks Act* contains some provisions geared towards assisting trademark owners in stopping the importation of counterfeit goods, these provisions place a very high burden on trademark owners in terms of securing an effective remedy. In particular, trademark owners must take the following steps under the current statute:

- (a) acquire intelligence that will reveal the full particulars of the fake goods that are en route to Canada;
- (b) apply to the court for relief with the appropriate evidence of the counterfeit goods;
- (c) post security with the court in many cases to answer any damages that may by reason of the order be sustained by the owner, importer or consignee of the wares; and
- (d) maintain proceedings to ultimately determine the propriety of the goods.

This process is time consuming, expensive and, more often than not, ineffective. While recent changes permit the sharing of information between the RCMP and customs officials under section 108(1) of the *Customs Act*, as well as the seizure of goods at the border under section 498 of the Criminal Code, these developments have resulted in only minor improvements in customs enforcement.

The RCMP also is responsible for investigating counterfeit activities, but its limited resources often force the RCMP to narrow its focus to counterfeiting that occurs on a large commercial scale. But the growth of Internet sales of counterfeits has resulted in a sharp increase in small consignments of counterfeit goods, which are often overlooked simply because of the lack of resources and authority to check small consignments.

Moreover, the position of the RCMP is that priority will be given to cases involving counterfeit products that: (1) raise health and safety issues; (2) are connected to criminal organizations; or (3) involve large scale distribution. Absent these concerns, the RCMP does not generally pursue small-scale retail cases unless they involve health and safety concerns or a connection to criminal activity. Although INTA recognizes the reasons why law enforcement prioritizes cases, nevertheless small-scale retailers of counterfeit merchandise should not be ignored as they collectively cause significant economic harm to consumers and legitimate business in Canada.

Finally, another significant issue the RCMP is facing is the lack of a law that criminalizes the sale and distribution of counterfeits once these goods are within Canadian borders. Without explicit measures in place to criminalize counterfeiting activities (outside of the manufacture of counterfeits often occurring overseas) there is no deterrent to the sale or distribution of counterfeits within Canada.

III. Recommendations

INTA believes that there are a number of measures that the Canadian government can take to strengthen its efforts to protect its consumers and industries from the harms of counterfeiting. Such measures would also allow Canada to raise enforcement standards equal to its major trading partners, as well as conform to international enforcement standards, including those of

the Anti-Counterfeiting Trade Agreement (ACTA), which Canada signed in 2011 and which INTA supports.

Legislative Changes

Customs Act:

- Provide customs officials with explicit authority to act with respect to the importation of counterfeit goods, including, but not limited to, contacting importers of suspected counterfeit merchandise and trademark owners to inform them of the seizure, detaining and destroying counterfeit goods, and implementing policies promoting the detection of such goods.

Rationale -- While section 53 of Trade-marks Act contains some provisions geared towards assisting trademark owners in stopping the importation of counterfeit goods, these provisions place a very high burden on rights holders in terms of securing an effective remedy. They are time consuming, expensive, and often ineffective. Recent improvements have led to the sharing of information between the RCMP and customs officials under section 108(1) of the Customs Act and the seizure of goods at the border under section 498 of the Criminal Code. The issue remains: customs officials have no ex officio authority to act without an RCMP directive or court order. Without ex officio authority to act, customs has to go through time consuming and ultimately ineffective procedures to stop counterfeits.

- Provide for the recordation of trademark rights.

Rationale --To assist in preventing the importation of counterfeit goods into Canada, IP rights holders should be able to record their trademarks with customs officials. The recordation system will provide customs officials more information on how to determine if the goods are counterfeit and the appropriate contact person at the IP rights holder's company.

- Provide for detention of counterfeit products.

Rationale -- In circumstances where customs officials suspect the importation of counterfeit merchandise into Canada and wish to contact the trademark owner for verification of their suspicion, the shipment should be detained to avoid the risk of allowing counterfeit merchandise to enter the country.

- Provide for a simplified destruction procedure.

Rationale -- The cost to store counterfeit goods increases on a monthly basis. In situations where seized products are going to be destroyed, customs officials should have a formalized process in place to address this issue. The current procedure requires Canada Border Services Agency to work with the RCMP to destroy goods, making the

destruction procedures onerous and time-consuming for both the customs officials and trademark owners.

Criminal Code:

- Explicitly prohibit importation and/or sale of counterfeit products or possession of such for the purpose of trafficking.

Rationale – There is currently no explicit provision that criminalizes counterfeiting in the Canadian Criminal Code. Under sections 407-414 of the Criminal Code, counterfeiters can be prosecuted for using someone else’s marks with the intent to deceive or defraud in manufacturing counterfeits, but not their sale or importation. Without a specific criminal provision for the sale of counterfeits, law enforcement would often charge counterfeiters with selling and importing goods that infringe copyright under section 42 of the Copyright Act when, in fact, the authorities should charge them with counterfeiting. For particularly egregious forms of counterfeiting, it may also be possible to be charged with fraud under the Criminal Code, but this is a rare occurrence. The willful sale and distribution of counterfeit goods should be a criminal offence under the Criminal Code to give the RCMP and customs officials the authority to arrest and prosecute counterfeiters who are selling and importing counterfeits in Canada.

Trade-marks Act:

- Add provisions to the Trade-marks Act giving courts the power to award significant statutory (or “pre-established”) damages against counterfeiters in recognition of situations where it is difficult for the trademark owners to prove their measurable monetary loss or damage.

Rationale – Although the Copyright Act provides for statutory damages, the current trademark law does not. This disparity allows for fixed nominal amounts for damages in copyright law but imposes difficult evidentiary burden of proving actual damages for trademark owners. It is in the interest of trademark owners and the Canadian government alike to have the strongest enforcement mechanisms possible such as statutory damages to protect trademarks from infringement, counterfeiting, and fraud. Statutory damages are an added deterrence for counterfeiters, especially if coupled with strong anticounterfeiting provisions in the Criminal Code.

- Provide counterfeiting as a criminal offence under the Trade-marks Act.

Rationale – There are currently no laws in Canada that make sales of counterfeits a criminal offence. The current provisions in the Trade-marks Act are interpreted to cover manufacturing counterfeits as a criminal offence, but not the sale of counterfeits. The Criminal Code only has provisions on willful copyright infringement and fraud. As a result, RCMP’s only option is to charge counterfeiters with copyright infringement when

the offence is trademark infringement, specifically counterfeiting. These charges are ultimately ineffective because courts will release the counterfeiters if they are charged with the wrong crime. This leaves the RCMP powerless to act in counterfeiting cases. As a willful, egregious form of trademark infringement with health and safety concerns, the sale and distribution of counterfeit goods should be a criminal offence either under the Trade-marks Act or the Criminal Code.

Funding and Procedures:

- Allocate sufficient resources towards training customs officials.

Rationale – Training for customs officials and law enforcement is an important component in rooting out counterfeiters. Information on trends and challenges in anticounterfeiting, such as the prevalence of online websites selling counterfeits, and education on how to address these issues should be incorporated and updated in training materials. Counterfeiters are becoming increasingly sophisticated, and counterfeits are now harder to detect from genuine goods. Customs officials and law enforcement should continue to adapt their enforcement methods to fight these ever-evolving counterfeiting activities. Coordination between the public and private sector should also be encouraged to share resources, experiences and best practices on trademark rights enforcement.

- Provide funding to the RCMP to prosecute small consignment sellers.

Rationale – An increasingly significant problem is the use of small consignment shipments to get counterfeit goods into Canada, especially counterfeit pharmaceuticals. As mentioned in previous sections, the RCMP prioritizes health and safety cases and large-scale distribution. Absent these concerns, the RCMP does not generally pursue small-scale retail cases (i.e., small consignments) due to resource issues.

Small-scale retailers of counterfeit merchandise collectively cause significant economic harm to consumers and legitimate business in Canada and should not be ignored. To ensure that small-scale retailers are deterred from distorting markets with the sale of counterfeit goods, INTA recommends that more funding be allocated to the RCMP for combating small consignments that, in the aggregate, produce significant losses to trademark owners and to the government in terms of revenues.

IV. Conclusion

Counterfeit goods are serious economic, fiscal, and health risks to Canada. The remedies available for combating counterfeiting in Canada are time-consuming, risky and place an unfair burden on trademark owners to establish a strong prima facie case before any interim relief is provided. More needs to be done to protect trademark owners and the public from the damaging effects of counterfeits. At the very least, Canada should adopt more stringent border controls

and greater information sharing among different enforcement agencies, such as the RCMP and the Canada Border Services Agency. INTA encourages Canada to be a world leader in trademark protection and expeditiously implement these improvements to its border enforcement as well as criminal investigation and prosecution measures.

V. About INTA

INTA is a not-for-profit membership association of more than 5,900 trademark owners and professionals, from more than 190 countries, founded in 1878 and dedicated to the support and advancement of trademarks and related intellectual property as elements of fair and effective national and international commerce. INTA members share a common interest in the protection and development of trademarks and trademark law and rely on INTA to represent and help further their trademark interests in government affairs, and to help promote those interests throughout the international trademark community. INTA's diverse membership includes, but is not limited to, start-up organizations, major multinational corporations, intellectual property and general practice law firms, service firms, trademark consultants and academic institutions. INTA has 179 member firms and corporations in Canada. Further information about INTA can be found at www.inta.org.

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