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### **Legal framework**

The Criminal Code and various IP statutes, including the Trademarks Act and Copyright Act, contain provisions that are applicable to counterfeiting. These statutes are discussed in more detail below.

### **Border measures**

In Canada, there is generally no customs enforcement of IP rights and customs officials have traditionally seen their role as simply collecting the relevant duties.

Limited seizure remedies are available in certain IP statutes. The Trademarks Act (Section 53), the Integrated Circuit Topography Act (Section 14) and the Copyright Act (Section 44) all contain provisions that permit applications for interim custody to be made, but the prerequisites for obtaining an order are such that they are practically never used.

For example, under the Trademarks Act the owner of a registered mark may apply to the Federal Court for an order of seizure of goods, pending trial, but only when the goods are “about to be imported” or “have been imported into Canada but not yet released” (Section 53.1). Obviously, knowledge of impending importation or release into the trade is required, which is extremely unusual, making the section virtually useless. Also, there are no penal provisions in the Trademarks Act or the Customs Act, making the procedure essentially toothless. Finally, the onus is on the owner of the registered mark to bring the application for interim custody, and not on customs officials to look out for counterfeits.

The combination of a lack of enforcement by customs officials and only limited border remedies available in IP statutes has resulted in very few detention orders being issued; it is estimated that since 1994 only 10 to 15 detention orders have been issued to rights holders by Canadian courts, compared to tens of thousands of counterfeit shipment seizures in the United States.

### **Criminal prosecution**

Criminal penalties are limited to those in the Criminal Code for forgery or passing off of a trademark (Sections 406 to 412), and in the Copyright Act (Section 42) for copyright infringement or piracy.

Penalties for forgery or passing off of a trademark include fines of up to C\$10,000 and/or imprisonment for up to two years. The penalties for criminal copyright infringement include fines of up to C\$1 million and/or imprisonment for up to five years.

On June 22 2007 the Criminal Code was amended to create the following two offences:

- recording a movie for personal use (Section 432(1)), punishable by imprisonment for up to two years; and
- recording a movie for commercial purposes (Section 432(2)), punishable by imprisonment for up to five years.

These provisions, combined with the publicity behind them and recent arrests for illegal copying, have already resulted in a dramatic drop in the number of counterfeit movies on the streets.

Criminal prosecution has cost advantages for the rights holder, since the costs of prosecution are borne by the state (although investigation-related costs remain). Other advantages to criminal prosecutions include the deterrent value of criminal penalties and the ability to involve the resources of the police, who operate in many areas of the country, in the matter. Traditionally, companies have turned to the Royal Canadian Mounted Police, which has national jurisdiction. In addition, since in Canada there are no limitation periods for indictable offences, it may be possible to pursue a criminal action for certain infringing activities that would be statute barred in a civil prosecution.

In addition to the difficult task of showing criminal intent in a criminal action, the disadvantages of criminal proceedings include the loss of control over the timing of the action, and the dependence upon the police to decide when, and even whether, to prosecute. Often the real difficulty lies in persuading the police to become involved and convincing them that the case is not merely a civil or commercial dispute, and may involve serious issues of health, safety or organized crime.

The Royal Canadian Mounted Police has been persuaded to become involved in a number of cases, some of which have resulted in criminal convictions, covering products ranging from football jerseys to lamps. However, the Royal Canadian Mounted Police has gone on record to say that it does not have adequate resources to handle counterfeiting. As a result, the Royal Canadian Mounted Police does not always initiate prosecutions against counterfeiters, even when rights holders provide evidence of counterfeiting activities. If the aggrieved company can help the Royal Canadian Mounted Police with evidence, there is a better chance of getting police assistance. For example, the arrest of an Alberta man in early 2008 under the new movie piracy amendments to the Criminal Code came on the heels of a six-month investigation by a security company hired by the Canadian Motion Picture Distribution Association.

Other recent high-profile arrests underscore the battle that brand owners face with counterfeiters.

In Autumn 2008 investigations led police to 44,000 cartons of counterfeit cigarettes worth C\$2.2 million. The shipment is believed to have originated in China. Four men were arrested and face criminal charges.

In August 2008 Peel Regional Police raided three warehouses in Mississauga, Ontario and discovered 25,000 pieces of

counterfeit merchandise worth C\$10 million. The goods were marked with the trademarks of 11 designers including PRADA, GUCCI and CHANEL. Two men face more than 20 criminal charges in this case and police believe it may represent the largest seizure of counterfeit goods in Canadian history.

#### Civil enforcement

Civil remedies for counterfeiting are available at common law for trademarks and also pursuant to IP legislation. The applicable statutes give some guidance on remedies, which include:

- injunctions;
- damages;
- recovery and/or accounting of profits;
- destruction of the infringing goods (or the means by which they were made);
- recovery of legal costs; and
- for copyright infringement, statutory damages.

A plaintiff may seek damages under multiple statutes (eg, for both trademark and copyright infringement) arising from the same activity. Under the Copyright Act, an infringer is technically liable for both the successful plaintiff's damages and disgorgement of profits.

If an infringement or passing-off/depreciation action is started, the plaintiff can also bring an application for seizure of the goods, with or without notice to the defendant (known as an Anton Piller or John Doe seizure order). Often the request is to permit seizure from unnamed defendants, given the difficulty of both identifying and locating counterfeiters. Orders are subject to supervision by an officer of the court, usually the local police, and are often limited both temporally and geographically. Typically, brand owners act together in these raids and the vast majority of orders are given against sellers, as opposed to manufacturers. With luck, the seller may have contact information leading to the identity of the source, but often there are so many middlemen that the source is never accurately identified; if it is, there are difficult jurisdictional issues in bringing the manufacturer before the Canadian courts.

Pursuing a civil remedy for infringement has the advantage of allowing the plaintiff rights holder to control the action, including the timing of the proceedings and choice of remedies sought. However, litigation is costly and often feasible only for large businesses. Locating infringers and infringing merchandise, getting infringers to court and collecting damages in the event

of a favourable ruling can all be difficult for any plaintiff.

In 2007 the decision in *Louis Vuitton Malletier SA v Yang* showed that an action against both the landlord and a retailer could result in liability for trademark and copyright infringement. Finding and suing a landlord may be easier than getting the necessary details on tenants, and provides extra leverage that might result in faster results. Some countries (not Canada) have enacted specific legislation confirming landlords' liability for knowingly permitting infringing activities to be carried out in their premises. The Trademarks Act does not specifically catch landlords for infringing activity. The secondary infringement provisions of the Copyright Act are more broadly drafted, but still do not clearly catch landlords. However, to the extent that it can be argued that a landlord has possession of goods in the premises that it rents out, liability for infringement may follow.

*Louis Vuitton Malletier SA v 486353 BC Ltd* continued the recent trend by Canadian courts to grant substantial damages in counterfeit suits. In this case, the defendants operated stores across Vancouver. After conducting its own investigations, the plaintiff executed an Anton Piller order in 2004 at two locations, seizing hundreds of counterfeit Louis Vuitton products. The plaintiff subsequently obtained a Federal Court judgment against the defendants. Despite this, the defendants continued to sell counterfeit Louis Vuitton merchandise. After further investigations, during which even more counterfeit goods were purchased at the defendants' stores, Louis Vuitton entered into a settlement agreement with the importer, Wynnie Lee, requiring her to stop selling counterfeit Louis Vuitton merchandise and to pay it a nominal sum.

However, the defendants continued to sell counterfeit Louis Vuitton products. Between January 2006 and January 2008 Louis Vuitton made numerous purchases and observations of counterfeit Louis Vuitton merchandise at various locations, which ultimately led to the recent lawsuit for breach of contract, trademark infringement, passing off and copyright infringement.

As part of the discovery stage of the litigation, the court noted that the defendants' inventory turned over approximately three times per year and estimated damages at over C\$7,000 for each of the defendants' retail locations. The court also awarded full statutory damages of C\$20,000 per work for copyright infringement. The court made an additional award of damages against the main

defendant and importer, Wynnie Lee; it also granted C\$200,000 in punitive and exemplary damages against Wynnie Lee and C\$100,000 in punitive and exemplary damages against the other defendants. In addition, the court made a special award of costs, citing the deliberate and inexcusable repeated infringement of the plaintiff's rights and the defendants' failure to cooperate in the litigation. In all, the defendants were ordered to pay C\$980,000 to the plaintiff due to their trademark and copyright infringement. In a follow-up judgment, the court awarded a further C\$83,000 in damages for trademark infringement against Jacqueline Lee, who operated two of the stores selling counterfeit goods.

This case represents another major victory against manufacturers and sellers of counterfeit merchandise, and appears to continue the recent court trend to award significant damages as a deterrent.

If an injunction is granted and the goods are ordered to be destroyed or delivered up to the plaintiff, the most serious problem of the infringing merchandise in trade channels may be resolved. Collecting on damages awards, however, may be problematic in many cases. A case in point is the 2007 case of *Microsoft Corp v 9038-3746 Quebec Inc* in which Microsoft was awarded the highest statutory damage award for copyright infringement in Canada. At the time of writing, the company has yet to collect on this award, and the defendants were recently cited for contempt of court for continuing to sell counterfeit software.

### Anti-counterfeiting online

The Internet plays a key role in copyright and trademark infringement. Internet chat rooms and private online forums are used by individuals to provide information regarding manufacturing techniques and to distribute high-value items such as false identification (ie, passports, drivers licences and birth certificates). Moreover, since goods purchased online are normally delivered through the conventional mail system, they frequently bypass Canadian regulations for the distribution of controlled goods.

The Internet provides the following advantages to counterfeiters:

- Products can be sold through websites with domain names that mimic or incorporate third-party trademarks, or that make false claims of affiliation;
- Established auction sites such as eBay provide instant, round-the-clock access, so consumers can conveniently shop from anywhere, any time;

- Consumers frequently use the Internet to research products and prices. Counterfeiters have an advantage since their prices are typically lower than average retail prices; and
- Counterfeiters can readily share information and enter into deals using online chat rooms and message boards.

Rights holders must adopt new multi-jurisdictional strategies to eliminate the source, the importers and the distributors. These will include the monitoring of online counterfeit activity as well as liaison with authorities such as internet service providers, email providers, the Royal Canadian Mounted Police and the customs authorities.

### Preventive measures/strategies

At present, Canada has no equivalent to the US National Intellectual Property Law Enforcement Coordination Council, which provides a coordinated enforcement strategy and consists of members of the Justice Department, the Department of State, the Department of Homeland Security, the Office of the US Trade Representative and the Department of Commerce.

However, the Canadian Anti-counterfeiting Network, a non-profit coalition, has united stakeholders in the fight against counterfeiting and copyright piracy in Canada and internationally. The originating members of the network include organizations such as the Canadian Association of Importers and Exporters, companies from a range of industries and law firms representing a host of IP rights holders – both Canadian and foreign – with significant businesses in Canada.

Generally, however, it is up to rights holders to protect and enforce their rights through diligent licensing agreements to protect trademark, copyright and patent rights, and agreements with other parties to protect other IP rights such as confidential information and trade secrets. Rights holders must also monitor the marketplace. If counterfeiting is suspected, it is up to the rights holder to investigate the allegedly infringing activities and to decide how to proceed to enforce those rights, either through a civil suit or by presenting a case to the appropriate criminal authorities.

This fact has not gone unrecognized. In May 2008 the Canadian Chamber of Commerce announced the creation of the Canadian Intellectual Property Council, which aims to raise the profile of IP rights among key government policymakers and the general public. Initial members of the council include Cisco Systems Canada Co, Canada's

research-based pharmaceutical companies, Microsoft Canada Co, the Association of Canadian Distillers and eBay Canada.

The council has recommended that the federal government strengthen IP protection by, for example:

- clearly stipulating trademark counterfeiting as a specific criminal offence under the Trademarks Act; and
- amending the Criminal Code to criminalize the intentional possession of counterfeit goods for the purpose of sale.

Until recently it has been difficult to persuade the Canadian government of the need to improve anti-counterfeiting measures. In October 2007 Canada announced that it was participating in discussions towards an Anti-counterfeiting Trade Agreement (ACTA), in association with numerous other countries including Japan and the United States. Significantly, China – a country considered to be a major source of counterfeit goods – is not a participant in these discussions. The ACTA is intended to:

- increase international cooperation in combating counterfeiting;
- establish best practices for enforcement; and
- provide a more effective legal framework to fight counterfeiting and piracy.

To date, only limited public consultation has occurred in Canada in respect of the agreement. At the time of writing, the next round of ACTA meetings was due to be held in March 2009. [WTR](#)

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## Biographies

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Cynthia Rowden is a partner with Bereskin & Parr LLP, a barrister and solicitor, and a registered trademark agent. She specializes in all areas of trademark and copyright law. Much of her practice relates to managing the trademark portfolios of large Canadian companies and the Canadian portfolios of international companies, ranging from selection to enforcement of trademarks. She also handles internet-related IP issues, such as domain name and copyright content matters, and advertising issues arising from e-commerce.



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Megan Langley Grainger is an associate lawyer with Bereskin & Parr LLP. Her practice focuses on trademarks, related litigation and marketing and advertising law. Prior to attending law school, Ms Langley Grainger spent several years gaining valuable industry experience in the field of consumer packaged goods marketing while managing national brands.