

Contributing firm
Kestenberg Siegal Lipkus LLP



Authors

Lorne M Lipkus, Thomas M Slahta and Georgina Starkman Danzig

Legal framework

Combating counterfeiting in Canada requires use of the following legislation:

- the Trademarks Act (RSC 1985, c T-13);
- the Copyright Act (RSC 1985, c C-42); and
- the Criminal Code (RSC 1985, c C-46).

Only the Copyright Act contains both civil and criminal offence and penalty provisions, and provisions prohibiting the import of infringing merchandise (Sections 27 and 42). The Trademarks Act contains civil prohibitions and penalties, but lacks criminal offence and penalty provisions, and also lacks provisions prohibiting the import of wares bearing a counterfeit reproduction of a trademark. Criminal enforcement involving counterfeit trademarks must be addressed by reference to the Criminal Code provisions, primarily those concerning:

- the forgery of a trademark (Sections 406 and 407);
- passing off or false description (Sections 408(a) and 408(b)); and
- fraud (Section 380).

Legislative reform

Anti-counterfeiting Trade Agreement

On October 1 2011 Canada signed the Anti-counterfeiting Trade Agreement (ACTA). Among other things, ACTA requires signatories to adopt and maintain procedures that will enable customs officials to detain, on their own initiative and without the need for a prior court order, suspected counterfeit and pirate goods. As described below, this power does not exist in Canada's existing legislative framework.

Copyright Modernisation Act

The Copyright Modernisation Act (formerly Bill C-32) was introduced into the Canadian House of Commons on September 29 2011. The preamble to the bill describes its objectives – which include, in part, recognition that in the “current digital era,

copyright protection is enhanced when countries adopt coordinated approaches based on internationally recognized norms”.

Among other things, the purpose of Bill C-11 is to:

- address the challenges and opportunities of the Internet in order to be in line with international standards;
- clarify internet service providers' responsibility and liability for online copyright infringement; and
- make the enabling of online copyright infringement an infringement in itself.

Canada Consumer Product Safety Act

The Canada Consumer Products Safety Act came into force on June 20 2011. The act prohibits the manufacture, import, sale or advertisement of consumer products that could pose an unreasonable danger to the health or safety of Canadians. There are also prohibitions relating to the packaging, labelling or advertisement of a consumer product in a manner that is false, misleading or deceptive in respect of its safety. For example, the unauthorised use of

certification marks is prohibited. The prohibitions and powers in the act may become useful tools in the fight against counterfeit consumer products, provided that the consumer product poses a danger to human health or safety.

Proceeds of crime

On March 25 2010 the Criminal Code was amended to permit proceeds from the commission of an indictable offence under the Copyright Act to fall within the ambit of the Criminal Code's proceeds of crime regime, thus improving the ability of law enforcement agencies to enforce the act, by permitting the seizure, restraint and confiscation of proceeds derived from the commission of copyright-related offences.

Border measures

The Customs Act (RSC 1985, c 1(2nd Supp)) lacks express provisions authorising *ex officio* detention by Canada Border Services Agency (CBSA) officers of *prima facie* counterfeit goods. Under the existing statutory regime, rights holders must investigate any potential import of counterfeit merchandise sufficiently in advance of the actual import to seek a court order directing the CBSA to take reasonable measures to detect and detain the subject goods. Memorandum D-19-4-3 also outlines the information that is "reasonably required" to help the CBSA to detect shipments of goods covered by the court order:

- complete description of the goods;
- classification of the goods under the Harmonised System;
- quantity and value of the goods;
- identity of the importer (eg, name, address (location), business number);
- identity of the exporter and vendor;
- country of export;
- country of origin;
- place of import or release;
- approximate date of arrival;
- mode of transportation; and
- notification procedure for the applicant in the event the goods are detected (eg, letter, fax).

Unsurprisingly, few orders have been sought and obtained under the existing legislation.

To compensate, the CBSA and the Royal Canadian Mounted Police (RCMP) have established joint taskforces in various ports across Canada and have taken steps to establish a working protocol to conduct joint investigations in criminal activities involving counterfeit goods and to seize and

dispose of counterfeit merchandise.

In practice, if a CBSA officer identifies suspected shipments of counterfeit merchandise in the exercise of traditional customs duties, he or she will first determine whether there are any Customs Act violations associated with the shipment. If there are, charges may be laid under the Customs Act. If there are no Customs Act violations, but the merchandise appears to be counterfeit, CBSA personnel may notify the RCMP, which may take steps to seize the shipment and either lay charges or obtain a voluntary surrender and destruction agreement from the importer.

Criminal prosecution

With the exception of recent amendments to the Criminal Code (Section 431.2) that address the unlawful filming of motion pictures in cinemas, Canada's criminal laws and remedies have not evolved to address IP theft expressly. Although product counterfeiting typically involves a violation of either trademark rights or copyright rights, only the Copyright Act contains criminal penalties for copyright infringement. Criminal prosecutions for counterfeit trademarked products bearing reproductions of trademarks applied without the consent of the trademark owner must proceed as Criminal Code offences, typically as fraud or passing off.

Criminal prosecutions under either the Copyright Act or the Criminal Code require proof beyond reasonable doubt of the act itself (*actus reus*) and subjective knowledge (*mens rea*) of the prohibited act to secure a conviction.

Courts have found that *mens rea* can be proved by circumstantial evidence, such as civil lawsuits or judgments of infringement or possession of previously delivered cease and desist letters from rights holders.

Assuming that the requisite elements of criminal copyright infringement have been proved beyond reasonable doubt, the Copyright Act provides for penalties for infringement (Section 42(1)), including fines of up to C\$1 million and/or imprisonment for up to five years. Criminal Code provisions for fraud, passing off or forgery involving a trademark include fines of up to C\$10,000 and/or imprisonment for up to two years.

When imposing penalties for copyright or trademark offences, courts apply statutory principles of sentencing:

The fundamental purpose of sentencing is to contribute, along with crime prevention initiatives, to respect for the law and the maintenance of a just,

peaceful and safe society by imposing just sanctions that have one or more of the following objectives:

- (a) *to denounce unlawful conduct;*
- (b) *to deter the offender and other persons from committing offences;*
- (c) *to separate offenders from society, where necessary;*
- (d) *to assist in rehabilitating offenders;*
- (e) *to provide reparations for harm done to victims or to the community; and*
- (f) *to promote a sense of responsibility in offenders, and acknowledgment of the harm done to victims and to the community...*

A sentence must be proportionate to the gravity of the offence and the degree of responsibility of the offender.

Although imprisonment is an available punishment for copyright or trademark offences, courts and prosecutors have declined either to impose or to recommend jail time. The fines imposed tend to be at the lower end of the spectrum.

Civil enforcement

Civil remedies are the most commonly employed means to address counterfeiting issues. The framework for civil actions is primarily statutory: the Trademarks Act and the Copyright Act. While there are common law prohibitions against passing off registered or unregistered trademarks, Section 7 of the Trademarks Act embodies the substance of common law passing off and is most frequently used. Actions commenced for infringement under these statutes may be brought in a provincial court or in the Federal Court of Canada. The applicable statutes include the following remedies:

- injunctions;
- preservation orders;
- damages;
- accounting of profits;
- destruction of infringing goods;
- punitive damages; and
- recovery of a portion of legal costs.

Under the Trademarks Act, damages and accounting of profits are alternative remedies. Both damages and disgorgement of the infringer's profits are recoverable under the Copyright Act. The Copyright Act also provides the option of electing statutory damages per copyright infringed. The Trademarks Act lacks statutory damage provisions.

The Federal Court Rules have express provision for preservation of the subject matter of litigation. Typically, motions for

preservation are brought on notice to the alleged infringer and, if successful, an order issues requiring the alleged infringer to deliver up the subject merchandise, pending the final outcome of the lawsuit.

Anton Piller orders have been described as civil search and seizure orders; however, that description is not entirely accurate. An Anton Piller order (typically granted *ex parte*) requires the person served to deliver up the goods alleged to be counterfeit for preservation pending determination of the lawsuit. While refusal potentially subjects a person served to contempt of court proceedings, compliance is nevertheless voluntary and persons executing Anton Piller orders cannot breach the peace if the person served refuses to cooperate. An independent supervising solicitor, who does not represent the rights holder, supervises the execution of Anton Piller orders. The independent supervising solicitor must fully explain the terms of the order, supervise any permitted searches of the subject premises and ensure that any potential privileged documents (whether physical or electronic) are preserved in a manner that allows the person served to assert privilege before they are disclosed. Law enforcement typically attends to keep the peace and to assure the person served that the process is legitimate.

Canadian courts, notably the Federal Court, have issued 'rolling' Anton Piller orders in John Doe/Jane Doe actions, in which some of the infringers are not yet ascertained. Following execution of a rolling Anton Piller order, the courts have an established mechanism for reviewing the execution of the service and adding the person served as a named party defendant. Before April 12 2010, this was a remedy of choice for rights holders with a multi-jurisdictional problem.

On April 12 2010 the Federal Court rendered a decision in which it set aside a rolling Anton Piller order and enumerated the evidentiary criteria that the rights holder must establish:

- Has the plaintiff demonstrated a strong *prima facie* case?
- Is the damage to the plaintiff potentially or actually very serious?
- Is there convincing evidence that the defendant has in its possession incriminating documents or items?
- Is there a real possibility that the defendant may destroy such material before the discovery process can be carried out?

The decision introduced two additional criteria:

- Would the inspection do no harm to the defendant or its case?
- Would the interests of justice be brought into disrepute?

The evidentiary burden on a rights holder seeking this remedy has always been onerous, but the recent decision suggests, among other things, that unless the commodity which is the subject matter of the relief is extremely valuable, the rights holder cannot establish evidence of 'very serious damage'. With respect to the issuance and use of John Doe orders, the decision introduces, but fails to reconcile, the tension between the requirement that specific evidence of ongoing counterfeiting be presented to obtain an order and the finding that a John Doe proceeding is properly issued only if the proposed defendants have not yet been ascertained. Since the issuance of this decision, requests advanced before the Federal Court for rolling John Doe Anton Piller orders have decreased.

Civil remedies for trademark and copyright infringement have the potential for greater damages than have been awarded as fines in the criminal context; however, where counterfeiters fail to keep business records, ascertaining appropriate damages or disgorgement of profits is difficult. In such circumstances, federal courts have established minimum compensatory damages for trademark counterfeiting that depend upon the type of business conducted by the counterfeiter.

Some recent jurisprudence has granted significant awards, including the highest amount possible for statutory damages in the copyright context and punitive damages against recidivists. For example, in *Microsoft Corporation v 9038 - 3746 Quebec Inc* the court awarded statutory damages of C\$500,000 (C\$20,000 per work) and punitive damages of C\$200,000.

In a recent Federal Court decision, *Louis Vuitton Malletier SA v Singga Enterprises*, the application of minimum compensatory damages principles yielded an extraordinary result in favour of the rights holders. This case was the culmination of a multi-year, multi-jurisdictional investigation into a number of counterfeiters, and ultimately proceeded to judgment by way of an unopposed summary trial involving numerous witnesses for the plaintiffs. In addition to awarding a permanent injunction and ordering the destruction of all offending merchandise, the defendants were ordered to pay a cumulative amount of C\$2.48 million to the plaintiffs. Given that

documents were delivered up by only one of the defendants, reliance was placed on minimum compensatory damages. Minimum compensatory damages were awarded to each plaintiff on a per instance of infringement basis or on a per inventory turnover basis. Maximum statutory damages of C\$20,000 were also awarded per copyrighted work infringed. In addition, the court found the "recidivist actions" of the defendants were deliberate and knowing, and evidenced "a complete lack of regard for the laws of Canada, the process of this Court, and the intellectual property rights" of the plaintiffs, yielding an award of C\$500,000 for punitive and exemplary damages. The case is partially under appeal.

Anti-counterfeiting online

The RCMP has identified an "ever-growing use of the Internet for IP crime" in Canada and predicts that the problem will escalate because "software, music and movie piracy are easy, low-risk activities". However, the problem extends well beyond the piracy of digital media. Luxury goods, electrical, electronic, high-tech and pharmaceutical products are also victims of counterfeit sales through third-party or unregulated websites. Canada's ineffective legislation, coupled with inadequate resources devoted to anti-counterfeiting, encourages counterfeiters to import counterfeit goods into Canada for sale online and shipment across North America.

Rights holders maintain that the first step towards addressing the problem of the virtual marketplace should be Canada's ratification of the World Intellectual Property Organisation Internet Treaties, which Canada signed more than a decade ago. At present, self-help remains the order of the day.

Preventive measures/strategies

Canada has no national IP law enforcement coordination body. Although two parliamentary committees have recommended that an IP Crime Taskforce be established as part of legislative reform, such legislation has not yet been enacted. Accordingly, the primary responsibility for battling counterfeit products lies with rights holders, which must take steps to protect and enforce their rights through comprehensive licensing arrangements, diligent civil enforcement and training of and cooperation with law enforcement and customs authorities to support appropriate criminal cases and interdiction of counterfeit goods at Canada's border. [WTR](#)

Biographies

Kestenberg Siegal Lipkus LLP

Kestenberg Siegal Lipkus LLP
65 Granby Street, Toronto, Ontario M5B 1H8
Canada
Tel +1 416 597 0000
Fax +1 416 597 6567
Web www.kslaw.com



Lorne M Lipkus
Barrister and Solicitor
llipkus@ksllaw.com

Lorne M Lipkus is a founding partner at Kestenberg Siegal Lipkus LLP, practising IP litigation with a principal focus on anti-counterfeiting enforcement, both civilly and criminally throughout Canada. He deals with all aspects of border enforcement. conducts anti-counterfeiting training sessions, conferences, workshops and lectures across Canada, and is widely quoted by numerous media outlets on anti-counterfeiting matters. Mr Lipkus chairs committees at the Canadian Anti-counterfeiting Network (CACN) and the Canadian Intellectual Property Council, is a member of the International Anti-counterfeiting Coalition (IACC), the Intellectual Property Institute of Canada (IPIC) and the International Trademark Association, and former chair of the Anti-counterfeiting and Trade Offences Committee of the Canadian Bar Association. He is a published author and a guest lecturer at the University of Guelph and Conestoga College on anti-counterfeiting matters.



Georgina Starkman Danzig
Partner
gdanzig@ksllaw.com

Georgina Starkman Danzig is a partner at Kestenberg Siegal Lipkus LLP. She practises IP litigation with a focus on anti-counterfeiting enforcement. She has extensive experience in extraordinary remedies and coordinating anti-counterfeiting programmes, including civil and criminal seizures. She actively lectures, and conducts training sessions on anti-counterfeiting enforcement. She is a member of the IACC, the Canadian Bar Association, the Law Society of Upper Canada, the CACN and the IPIC. She obtained an LLB in 1988, a JD in 1990 and was called to the Bar in 1990, when she served as a clerk to the chief justice of the Ontario Superior Court.



Thomas M Slahta
Barrister and Solicitor
tslahta@ksllaw.com

Thomas M Slahta has practised as a commercial litigator for more than 25 years, both in Canada and in the United States as a member of the New York Bar. As a litigator with Kestenberg Siegal Lipkus LLP, a significant component of his current practice involves enforcement of IP rights, with particular knowledge and experience in dealing with issues involving the Copyright Act, the Trademarks Act, and the Radio-Communication Act. He has developed significant experience in obtaining and supervising the execution of Anton Piller orders and preservation orders. In addition to his experience in IP matters, he also has extensive experience in complex commercial litigation, including insolvency, recovery and fraud litigation. Mr Slahta conducts training sessions and lectures on anti-counterfeiting enforcement for members of law enforcement, CBSA representatives, private investigators and various professional organisations. In addition, he has authored and co-authored materials on issues relevant to anti-counterfeiting enforcement.