

**Grey Goods vs. Counterfeit Goods
What's The Difference?**

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INDEX

1.	INTRODUCTION TO GREY MARKET GOODS.....	1
2.	FIRST SALE DOCTRINE.....	2
3.	TRADEMARKS.....	3
4.	COPYRIGHT.....	10
5.	PARALLEL IMPORTATION OF BOOKS.....	17
6.	REMEDIES.....	17
7.	ANTON PILLER ORDERS.....	21
8.	CONTRASTING COUNTERFEIT GOODS FROM GREY MARKET GOODS.....	23
9.	SOME RECENT COUNTERFEIT CASES IN CANADA.....	33
10.	CRIMINAL REMEDIES.....	38
	1. Copyright Criminal Provisions.....	40
	2. Trade-mark Criminal Provisions.....	44
	10.2.1. s.406 - Forgery of Trade-marks.....	44
	10.2.2. s.406(a) - elements.....	44
	10.2.3. s.406(b) - elements.....	45
	10.2.4. s.407 - Offence: Forgery.....	45
	10.2.5. s.408 - Offence: Passing-Off.....	46
	10.2.6. s.409 - Offence: Trade-mark Forging Instruments.....	48
	10.2.7. s.409 - Offence: Elements.....	48
	10.2.8. s.409(2) - Good faith defense.....	48
	10.2.9. s.410 - Other offences in relation to Trade-marks.....	49
	10.2.10. s.410(a) - Deface, conceal or remove trade-mark or name.....	49
	10.2.11. s.410(b) - Reusing branded bottles.....	49
	10.2.12. s.411 - Used goods sold without disclosure.....	50

10.2.13. s.412. (1) - Punishment	50
10.2.14. Trade-mark Forgery	51
10.2.15. s.360 (1) - Fraud.....	51
10.2.16. s.380 (1) CC - <i>Actus Reus</i>	52
10.2.17. s.380 (1) CC - <i>Mens Rea</i>	53
10.2.18. Fraud - Conclusion.....	53
11. CONCLUSION.....	54
ENDNOTES	55
SCHEDULE A.....	56
SCHEDULE B	57
SCHEDULE C	59

1. INTRODUCTION TO GREY MARKET GOODS

The importation of "grey market" goods is a major concern for owners of intellectual property rights not only in Canada, but worldwide. Grey market goods or parallel imports are genuine products protected by copyright or trade-mark that are imported into a country without the authority of the intellectual property owner in that country. Normally grey market goods are bought from a legitimate source abroad and imported into Canada. However, grey market goods can be bought in Canada, exported and then re-imported.

While the nature of the grey market goods being imported is unlimited, the most common types appear to be in the field of computer software and video games, clothing, "designer" merchandise, watches, licensed music and movie paraphernalia.

There are generally three categories of grey marketers. The first category are brokers who arrange for the purchase of the goods from legitimate foreign sources and subsequent sale to buyers in Canada. Brokers do not actual take possession of the goods and only act as middle men between the seller and buyer. The second category are wholesalers who purchase or obtain the goods from a legitimate foreign source and import them into Canada for subsequent sale and distribution to retailers. The third category are retailers who purchase or obtain goods from a legitimate foreign source and import them into Canada for subsequent sale to consumers.

The financial incentive for grey marketers arise from the intellectual property owners own pricing policies. For example, if a trade-mark owner sells its goods for a substantially lower price in a foreign country, then a grey marketer can purchase quantities of those goods in the foreign country and import them into Canada for re-sale at the higher domestic price. The greater the price difference between the domestic price and the foreign price, the greater the profit for the grey marketer. Some of the reasons for having a different price structure for foreign countries include differences in transportation costs, manufacturing costs and market conditions in foreign countries, and currency fluctuations. The price differences reflect an intellectual property owner's desire to maximize profits. As such, it is unlikely that an intellectual property owner would standardize its prices around the world if there are alternative methods of preventing the importation of grey market goods.

Enforcement of an owner's intellectual property rights involves litigation, which can be both costly and time consuming. In addition, purveyors of grey market goods are often difficult to identify or locate, and may possess little in the way of documents, and have few realizable assets against which a judgment for damages can be easily enforced.

2. FIRST SALE DOCTRINE

The first sale doctrine is essentially the exhaustion of some or all intellectual property rights in a particular article, upon the first sale of that particular article by the intellectual property owner, or by his consent. The doctrine holds that goods which originate in the stream of commerce with

the intellectual property owner are not counterfeit or infringing goods simply because they may have arrived in a particular geographical market where the owner does not wish them to be distributed.

The first sale doctrine applies where there is no confusion or deception as to the origin of the goods, i.e., the goods are what they purport to be. Thus, exception to the doctrine would arise where there is passing-off, where there is a binding contractual restriction, or where the goods are altered such that they can no longer be regarded as genuine.

There has also been discussion regarding whether there is a distinction between domestic exhaustion and international exhaustion of rights. Domestic exhaustion relates to an intellectual property owner only exhausting his or her rights in the country where he or she first placed his or her goods in commerce. International exhaustion relates to an intellectual property owner exhausting his or her rights world-wide, once the goods are placed in commerce anywhere. Canadian courts have not made such a distinction in applying the first sale doctrine.

3. TRADE-MARKS

Typically, consumer goods can be subject to both trade-mark and copyright protection.

The difficulty with attempting to use trade-mark protection to prevent parallel imports is that a trade-mark must be distinctive and must serve as an indication of the source of goods in

association with which the trade-mark is used. In order to remain distinctive internationally, a trade-mark should be owned by a single entity throughout the world. However, in these circumstances, any sale authorized by the trade-mark owner anywhere in the world would be considered a legitimate sale by that same owner of the trade-mark in Canada. Accordingly, where the source of the goods is legitimate and the trade-mark is applied with the authority of the trade-mark owner in the country where the goods are manufactured, the use of trade-mark legislation to prevent the importation of such goods into another country becomes quite limited.

Traditionally, it was thought that no trade-mark infringement could occur when goods were made by the same party who owned the trade-mark [*Condy v. Taylor* (1887), 56 L.T.R. 891 (Ch.)].

If goods had been placed into trade channels by the owner of a trade-mark, and had subsequently been acquired by another party in the ordinary course of business, it has been held that it is not an infringement for those same goods to be re-sold by that party in association with the trade-mark [*Wilkinson Sword (Canada) Ltd. v. Juda* (1966), 51 C.P.R. 55 (Ex.Ct.)]. In other words, the defendants are entitled to purchase and re-sell trade-marked products in Canada and such activity does not per se, constitute “use” under the *Trade-marks Act* [*Wella Canada Inc. v. Pearlton Products Ltd.* (1984), 4 C.P.R. (3d) 287 (Ont. H.C.J.)].

In *Coca-cola Ltd. v. Pardhan* (1999), 85 C.P.R. (3d) 489 (F.C.A.), the plaintiffs were the owners of registered trade-marks in soft drink products. The defendants purchased large quantities of the plaintiff’s products from a third party and exported them abroad against the wishes of the

plaintiffs. The products were then sold abroad still bearing the plaintiffs' trade-marks. The motions judge struck certain paragraphs from the statement of claim and the whole action was later dismissed as disclosing no reasonable cause of action. The Court of Appeal upheld the motion judges' decisions, agreeing that there was no "use" by the defendants because of the doctrine of first use. The Court of Appeal noted at page 497 that "the resale of goods manufactured by a trade-mark owner, bearing the trade-mark of the manufacturer, cannot realistically be said to be a use by the vendor to deceive the purchaser as to the provenance of the goods". "Use" takes place when a trade-mark is used to distinguish the goods manufactured by a seller from those manufactured by another; subsequent transactions in goods still bearing the intact trade-mark identifying the originator of the goods cannot be said to be used by the subsequent vendor for the purpose of distinguishing goods "manufactured ... by him" from those manufactured by another.

The Court also considered whether exporting the pre-purchased goods was "use" as under section 4(3) of the Trade-marks Act. The Court found that section 4(3) does not deem every exportation of goods bearing a trade-mark as a "use" of the trade-mark, but instead provides that, where there is actual "use", as defined by the Act, after export from Canada, such use shall be deemed to have occurred "in Canada". There is no "use" as under the Trade-marks Act where genuine goods of the trade mark owner are being shipped from Canada. Leave to appeal to the S.C.C. was refused.

The doctrine of first sale and exhaustion of rights for trade-marks was again considered in *Smith & Nephew Inc. v. Glen Oak Inc.*, (1996) 68 C.P.R. (3d) 153 (F.C.A.), where the Court concluded that Smith & Nephew could not assert rights as a licensee against goods which, directly or indirectly, originated with the licensor-owner. Glen Oak sold a NIVEA product in Canada which it had obtained from a Mexican manufacturer, licensed by the trade-mark owner to manufacture and sell the product in Mexico. Smith & Nephew was licensed to sell NIVEA products in Canada and applied for an interlocutory injunction. The Court of Appeal allowed the appeal and dismissed the application for the injunction. With respect to the doctrine of first sale, the Court reasoned (at page 160):

Smith & Nephew as Canadian licensee and importer of goods bearing BDF's trade-mark cannot complain of the sale in Canada of other goods which are also manufactured by or under license from BDF and bear the same trade-marks. There can be no deception as to the origin of the goods, which are exactly what they purport to be, Nivea facial cream and soap whose quality and character is controlled by BDF...There is no evidence that the appellants have obtained the goods illegally and they have no obligation either in contract or under the provisions of the Trade-marks Act not to compete with the respondent in the Canadian market.

However, the Canadian jurisprudence has evolved to allow a trade-mark owner to prevent parallel imports where the domestic goods are "materially different" from those being imported into the country by the grey marketers. While these imported goods may be genuine, from the

viewpoint of a consumer in the domestic market, the differences in the products render them "not genuine".

In *Dupont of Canada Ltd. v. Nomad Trading Co. Ltd.* (1968), 55 C.P.R. 97 (Que. S.C.), the defendant had resold "damaged" goods purchased from the plaintiff trade-mark owner. The Court concluded that the defendant had infringed the plaintiff's trade-mark by replacing the label that the plaintiff had deliberately removed, since the products for resale were not the same as the plaintiff's, i.e., the products were below the regular standards of the manufacturer. The plaintiff was granted an interlocutory injunction.

The seminal case relating to grey market goods and trade-mark protection in Canada is *Consumers Distributing v. Seiko Time Canada Ltd.* (1985) 1 C.P.R. (3d) 1 (S.C.C.). In this case, Seiko had a worldwide distribution network for watches. Consumers purchased watches in the United States from a dealer in Seiko's network, imported the watches into Canada and sold them at their stores. An injunction was ordered restraining Consumers from "holding itself out as an authorized Seiko dealer by advertising and selling Seiko watches as internationally guaranteed". It was found that the product offered by Consumers was different from the product offered by Seiko's distribution network on the basis that the product offered by Seiko's distribution network included an international warranty for one year from the date of purchase, which was not available from Consumers. The Seiko warranty would only be honoured if the warrantee certificate was properly filled out by an authorized Seiko dealer from which the watch was

originally purchased. Given Consumers was not an authorized Seiko dealer, people purchasing watches from Consumers would not be entitled to the Seiko warrantee.

While Consumers was enjoined from holding itself out as an authorized Seiko dealer or advertising and selling Seiko watches as internationally guaranteed, Consumers was still allowed to advertise and sell Seiko watches in Canada, as long as they made it clear that they were not an authorized Seiko dealer and that the watches were not internationally guaranteed by Seiko. Accordingly, as long as the differences in the products were made known to the public, Consumers was still entitled to sell the grey market watches.

In *Sharp Electronic of Canada Ltd. v. Continental Electronic Info. Inc.*, (1988) 23 C.P.R. (3d) 330 (B.C.S.C.), the plaintiff was a registered user of the trade-mark SHARP for use in association with facsimile machines in Canada. The defendant obtained SHARP facsimile machines from intermediate sources which obtained the machines from the manufacturer and owner of the SHARP trade-mark in Japan. The defendant imported, advertised, offered for sale and sold these machines in Canada. The plaintiff applied for an injunction based on common law passing off. The plaintiff's position was that since the defendant's machines did not have the approval of the Canada Standards Association ("CSA"), the Electrical Safety Branch of the British Columbia Ministry of Municipal Affairs ("ESB") or the federal Department of Communications ("DOC"), there was a sufficient material difference in quality of the machines as to create confusion in the mind of the public.

Pursuant to the British Columbia *Electrical Safety Act*, ESB approval was required for selling facsimile machines in British Columbia. The Court held that the absence of approval by ESB may itself create a difference in quality which could found an action for passing off. As such, the Court granted an injunction against the defendant's machines unless they were ESB approved and had a sticker attesting to such approval. The injunction also required the defendant to indicate that it was not an authorized dealer of the plaintiff and that the machines were not covered by the manufacturer's warranty.

While CSA approval was certainly in the public interest, it was not a legal requirement for selling facsimile machines in Canada. It was found that since CSA approval automatically qualifies a product for ESB approval, then *prima facie* ESB approved machines are of the same level of quality with respect to electrical safety as those bearing CSA stickers. As such, the Court did not require the defendant to indicate on the defendant's machines that the machines were not CSA approved.

There was no evidence with respect to the advantages or requirements of DOC approval. Therefore there was insufficient evidence to establish that the absence of DOC approval created a material difference in the quality of the defendant's machines. However, since the public had a right to know whether DOC approval was granted, the injunction also required the defendant to indicate on each of defendant's machines that the machine was not DOC approved.

In *H.J. Heinz Co. of Canada Ltd. v. Edan Foods Sales Inc.* (1991) 35 C.P.R. (3d) 213 (F.C.T.D.), the plaintiff was the owner of the Canadian trade-mark registration for HEINZ, for ketchup. The defendant purchased HEINZ ketchup from the plaintiff's United States parent company and imported the ketchup into Canada. The defendant's ketchup was clearly labeled that it was imported. However, the Canadian formulation of HEINZ ketchup was "different" from the United States formulation due to the differing taste preferences in the respective countries. The court granted an interlocutory injunction, preventing the importation and sale of the defendant's ketchup.

An example of the "material differences" doctrine in the United States is found in *Lever Bros. Co. v. U.S.*, 981 F2d 1330 (D.C. Cir. 1993). In *Lever Bros*, the court held that the differences in the suds and formulas for use in hard versus soft water in the U.K. and U.S. versions of SUNLIGHT dishwashing soap and the differences in the lather, smell and deodorants in the U.K. and U.S. versions of SHIELD soaps were material differences in the products. As such, the differences in the U.K. products made them "not genuine".

4. COPYRIGHT

While a trade-mark must remain distinctive of a single entity throughout the world, there is no such distinctiveness requirement for copyright. As such, resourceful manufacturers of goods can register copyrights in label designs, packaging and instruction and warranty cards packaged with the goods in the names of different entities in each country. When goods subject to copyright in

a foreign country are imported into Canada, the owner of copyright in Canada may have a cause of action for preventing the importation of the goods, because the copyrighted material was not first sold or authorized to be sold by the Canadian owner. However, the economic rights of the copyright owner are limited to only the rights retained by the owner in Canada, and do not include rights to any works that would otherwise be authorized to be sold within Canada. (see *Théberge v. Galerie d'Art du Petit Champlain Inc.* (2000), 17 C.P.R. (4d) 161, at 171 (SCC))

A person need not himself or herself be a copier to infringe copyright. Section 27(2) of the *Copyright Act* provides for "secondary infringement":

27(2) It is an infringement of copyright for any person to;

- (a) sell or rent-out,
- (b) distribute to such an extent as to effect prejudicially the owner of the copyright,
- (c) by way of trade, distribute, expose or offer for sale or rental, or exhibit in public,
- (d) possess for the purpose of doing anything referred to in paragraphs (a) to (c), or
- (e) **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 on copyright if it had been made in Canada by the person who made it.

In *Fly By Nite Music Co. Ltd. et al. v. Record Warehouse Ltd.* (1975) 20 C.P.R. (2d) 263 (F.C.T.D.), the Canadian plaintiff owned copyright in Canada for the record entitled “Can You Feel It”. While the record was well received in Canada, the United States copyright owner soon deleted the record from its catalogue. The defendant purchased a quantity of the deleted records at a substantial discount and imported them into Canada for re-sale. The Court granted the Canadian plaintiff an injunction preventing the defendant from importing the grey market records and found (at page 270):

The fact that the albums were lawfully made and purchased outside Canada is no defence to an action for infringement based on s. 17(4) [now s. 27(2)].

Another case involving the recording industry is *A&M Records of Canada Ltd. et al. v. Millbank Music Corp. Ltd. et al* (1984) 1 C.P.R. (3d) 354 (F.C.T.D.). In this case, the copyright owner and its Canadian licensee obtained an interlocutory injunction against the importation of records which were purchased in Mexico from the copyright owner’s Mexican licensee.

The case of *Les Dictionnaires Robert Canada SCC et al. v. Librairie du Nomade Inc. et al.* (1987) 16 C.P.R. (3d) 319 (F.C.T.D.) involved the parallel importation of dictionaries. The dictionaries were produced by a French company who assigned its copyright in Canada to the plaintiff. The

defendant purchased dictionaries from a United State company, which legitimately obtained them from the French company, and imported them into Canada. The Court held that the defendant infringed section 17(4) [now 27(2)] of the *Copyright Act*, and granted the plaintiff an injunction and damages.

One requirement of Section 27(2) is that the person must know or should have known that the copies of the work infringe copyright or would infringe on copyright if it had been made **in Canada by the person who made it**. In order to rely on this section against grey marketers, the owner of copyright in Canada must not be the same party as the owner of copyright in the country where the copies of the work were made. Any such copies made in Canada for export and re-import into Canada would not be covered.

For an importer to infringe by importation, it must also be established that the importer imported the work for the purpose of doing anything referred to in paragraphs 27(2)(a) to (c), such as importing for the purpose of selling or distributing the works. Accordingly, there should be evidence of the importer importing and selling, distributing, etc. copies of the work.

The burden of proving knowledge, as enumerated in Section 27(2), rests upon the Plaintiff. The classical interpretation of "knowledge" for the purposes of Section 27(2) was stated in *Clark, Irwin & Cole v. Cole & Company* (1959) 33 C.P.R. 173 (Ont.H.C.), as being "notice of facts such as would suggest to a reasonable man that a breach of copyright was being committed". In *Clark, Irwin*, a copyright Notice on the foreign work identifying the Canada copyright owner and the

foreign copyright owner as two different entities was found to be sufficient evidence that the Defendant had the requisite knowledge. Intellectual property owners should ensure that copies of the works include appropriate copyright notices.

However, the *Copyright Act* was amended in 1997 by Bill C-32 (*An Act to Amend the Copyright Act*) and a provision was added making the knowledge of an importer irrelevant with respect to section 27(2) of the *Copyright Act*. Specifically section 27(3) provides that:

27(3) In determining whether there is an infringement under subsection (2) in the case of an activity referred to in any of paragraphs (2)(a) to (d) in relation to a copy that was imported in the circumstances referred to in paragraph (2)(e), it is irrelevant whether the importer knew or should have known that the importation of the copy infringed copyright.

The Supreme Court of Canada dealt with grey market issues in *Euro-Excellence Inc. v. Kraft Canada Inc.*, 2007 SCC 37. In that case, the issue was whether Kraft Canada, as an exclusive licensee of copyright in logo elements applied to packaging of chocolate bars, could stop parallel importation of genuine chocolate bars bearing the copyright works that were manufactured in Europe by the copyright owners. While the majority of the court clearly rejected Kraft Canada's ability as an exclusive licensee to do so, two lines of reasoning were put forward for that conclusion, and two judges dissented.

The basis for the decision by four of the judges was that, since the owner of copyright in the logos, including in Canada, had reproduced the logos on the packaging of the bars from Europe, the copies of the works would not infringe copyright if made in Canada. Justice Rothstein found that there was a difference between an exclusive licence and an assignment and that the granting of an exclusive licence did not remove the right of the copyright owner to reproduce the work under the *Copyright Act*, but instead gave the exclusive licensee a contractual right against the copyright owner. Accordingly, the parallel importation was not secondary infringement pursuant to Section 27(2)(e) of the *Copyright Act* and Kraft Canada could not stop the parallel importation based on the copyrights. Justices Binnie and Deschamps concurred in the reasons of Rothstein J. without comment, while Justice Fish concurred but added comments regarding the serious doubt he had that agreements between commonly owned corporations as to ownership of copyrights directed specifically to preventing parallel importation should be upheld.

In his reasons concurring in the result, Mr. Justice Bastarache, with the concurrence of Justices LeBel and Charron, disagreed with the interpretation of the *Copyright Act* by Justice Rothstein. He specifically noted that the reasons of Justice Rothstein “clearly imply that the purpose of the Act could be circumvented by an assignment of the copyright rather than by the granting of a licence.” He went on to discuss the purpose of the *Copyright Act* and concluded that “economic consequences of unauthorized importation of consumer goods are not, generally speaking, the types of legitimate economic interest protected by the copyright in a work which is merely incidental to the sale or distribution of the consumer good to which it is attached.” He found that

the logos in question were merely incidental and that the defendant's dealings with the chocolate bars were therefore not caught within the language of Section 27(2) of the *Copyright Act*.

Finally, in dissenting reasons concurred with by Chief Justice McLachlin, Justice Abella rejected the exclusion of infringement based on incidental nature of the works. Further, based on her construction of the *Copyright Act*, it was further found that it was an infringement of Section 27(2)(e) for the defendant to import products with the copyright works on them into Canada after being notified by Kraft Canada of its Canadian copyright interests. In the end result, Chief Justice McLachlin and Justice Abella accordingly found that Kraft Canada could stop the parallel importation based on the exclusive licence it had in the copyright in the logos.

While the end result in the case was clear with a 5 to 2 majority finding that Kraft Canada could not stop the parallel importation, the result of the different approaches and dissenting opinions is that it is still not entirely clear whether an exclusive licensee can stop importation of products including reproductions of non-incidental copyright works if the works were authorized by the worldwide copyright owner, although the better view would appear to be that they cannot.

Similarly, it is not clear whether Canadian courts will uphold assignments of copyrights between related companies as a means to prevent parallel importation, although the best view is likely that they should even though such a result was clearly viewed by some of the judges as not promoting the ends to which the *Copyright Act* is directed. Further, the question of whether parallel importation of products bearing copyright works reproduced by an exclusive licensee in a foreign jurisdiction with authority of the copyright owner can be stopped by a different exclusive

licensee in another jurisdiction may still be open since the exclusive right granted the foreign licensee would not extend to reproduction in Canada and would accordingly arguably be infringement if undertaken in Canada

5. PARALLEL IMPORTATION OF BOOKS

Bill C-32 (*An Act to Amend the Copyright Act*), enacted sections section 27.1 and 44.2 of the *Copyright Act* which includes additional restrictions on the parallel importation of printed books. Prior to the amendment, The *Copyright Act* allowed only copyright owners and exclusive licensees to limit the parallel importation of printed books. The amendments also allow exclusive book distributors to seek remedies when books are imported into Canada without the consent of the copyright owner in Canada. This includes the importation into Canada of books which were printed under the authority of the copyright owner in another country. The remedies allowed under these provisions include an order requiring the Minister of National Revenue to detain shipments of books at Canada Customs. In order to benefit from this additional protection, exclusive book distributors are required to adhere to the criteria and standards set out in *The Book Importation Regulations* (SOR/99-324).

6. REMEDIES

The most effective remedies against a grey marketer is for an intellectual property owner to obtain an interlocutory injunction, if available, and a final Judgment against the grey marketer. The final Judgment can include a permanent injunction preventing the grey marketer from further

importing or selling the grey market goods, an award of damages or lost profit, and an award for costs for the proceeding. For intellectual property matters, an action can be commenced in either the Federal Court of Canada or a superior court of the province where the grey market goods are being marketed and sold. The advantage of bringing an action in the Federal Court is that any Judgment or Order obtained has effect throughout Canada, without the need to register the Judgment extra-provincially, as is the case with provincial court judgments.

Typically it takes approximately 2 to 3 years for a matter to proceed to trial. In the meantime, a grey marketer could have finished selling its inventory of grey market goods and may have disappeared. More effective relief may be obtained before trial, by way of an interim and/or interlocutory injunction, to stop a grey marketer from continuing to carry out the allegedly improper activity.

Interim injunctions are granted for a short period of time, usually pending disposition of a motion for an interlocutory injunction (in most jurisdictions in Canada, 10 days). Injunctions are generally obtained by motion on notice to the opposing party. However, in exceptional cases, the court may grant an *ex parte* interim injunction, which is time limited and subject to review within a short period of time (again usually 10 days). It must be brought no later than within a few days to a few months (at most) from when the plaintiff learned of the infringing activity; further delay will usually prevent an interim or interlocutory injunction from issuing, absent extraordinary circumstances.

Interlocutory injunctions are granted pending a trial on the merits and can vary in length from a few months to several years.

In Canada, the test for obtaining an interlocutory injunction is three-fold [*RJR-MacDonald Inc. v. Canada (Attorney-General)*], [1994] 1 S.C.R. 311 at 334 (S.C.C.)]:

1. The party seeking the injunction must demonstrate that there is a serious question to be tried; or, where the grant of an injunction will be determinative of issue(s) at trial, a strong prima facie case must be shown.
2. The party seeking the injunction must establish that damages will not be an adequate remedy and that it will suffer irreparable harm. Irreparable harm may include loss of distinctiveness or permanent loss of market share in a trade mark case, but must be real and not speculative.
3. The court must assess which party the balance of convenience favours. Factors that can influence the balance of convenience include how long the parties have been in the market, whether a party will be unable to carry on business and whether the injunction will maintain the status quo.

The plaintiff must establish each of the elements of the test by way of affidavit evidence. The defendant is entitled to file responding evidence and each party is entitled to cross examine the other party's witnesses. Evidence in support of an interlocutory injunction can include expert evidence, such as evidence by an expert on market share, distinctiveness or damage to goodwill

[*Imax Corporation v. Showmax Inc., et al.* unreported 18 January 2000, Ottawa T-592-99 (F.C.T.D.)], and fact evidence, such as evidence of the nature of the alleged activity. In cases of piracy or counterfeit goods, the Courts have been more willing to find that irreparable harm, not compensable in damages, has been made out by the intellectual property owner. If survey evidence is relied upon, it must meet the proper tests established for admissibility – proper universe, sample size, methodology and verification of results.

In grey market goods cases, circumstances where irreparable harm may be found by the court include:

1. The grey market goods having a materially different formulation than the domestic goods in Canada.
2. The grey market goods being of inferior quality to the domestic goods in Canada.
3. The grey market goods having not met required safety standards in Canada.
4. The grey market goods not having a warranty which is important in the marketing and sale of the domestic goods in Canada.

Otherwise, it will not be possible to prove irreparable harm and obtain injunctive relief to prevent grey marketing of goods.

The plaintiff is also required to give an undertaking in damages to indemnify the defendant in the event that the plaintiff receives the injunction and the court decides at trial not to grant a permanent injunction. It is important to note that the courts do, in some cases, require parties to

pay money into court as security for such undertakings.

7. ANTON PILLER ORDERS

Grey marketers are often difficult to identify or locate, may possess little in the way of documents, and have few realizable assets against which a judgment for damages can be easily enforced. Such grey marketers also tend to sell goods through a series of retailers located at local markets or through street vendors, who are also difficult to identify or locate.

With this in mind, Canadian Courts have granted extraordinary *ex parte* Anton Pillar and Mareva-type injunctions (to seize goods), and John Doe Orders (against unknown persons), to permit the Plaintiff and its solicitors to either attend at the Defendants' premises without notice, to search for and take possession of the grey market goods and any related documents, or to seize goods from previously unknown Defendants, or both. However, such relief is predominately granted only in counterfeit cases and not grey market goods cases.

The following three conditions need to be satisfied before an Anton Pillar Order will be granted in Canada (*Anton Piller K.G. v. Manufacturing Processes Ltd. et al* [1976] 1 All E.R. 779; *Nintendo of America Inc. v. Coinex Video Games Inc.* (1983), 69 C.P.R. (2d) 122 (F.C.A.)):

- (1) there is an extremely strong *prima facie* case;
- (2) the damage, potential or actual, to the Plaintiff must be very serious; and,

- (3) there must be clear evidence that the Defendants have in their possession incriminating documents or things and that there is a real possibility that they may destroy such material before any application brought on notice could be made.

An application for an *ex parte* Anton Pillar order is made by the filing of a Notice of Motion setting out the requested order, supporting affidavit(s), and a Statement of Claim. The motion will typically include a request that the application be heard *in camera* (ie. in private, without public access) to prevent counterfeiters from receiving advance notice of the possible order.

Once the Order is obtained, it must be served and executed against each of the Defendants. Counsel for the plaintiff who obtain the Order cannot act as counsel in execution of the Order against the Defendants – separate Counsel should be obtained for this purpose. After a search and seizure, the Plaintiff is required to attend an *inter partes* hearing to provide evidence detailing the seizure to justify the Anton Pillar Order and to support the application to the Court to extend the Order into an interlocutory injunction until trial.

In the case of *Microsoft Corporation v. Carmelo Cerrelli et al.*, 2007 FC 1213, despite a previous judgment against Cerrelli *et al.* (see 2006 FC 1509), the Defendants continued to sell counterfeit Microsoft wares. Microsoft commenced a new action in the Federal Court of Canada, and immediately sought and obtained interim relief, including an Anton Piller Order and other injunctions. In this decision, the Court extended interim relief into interlocutory relief and granted the Plaintiff an interlocutory Mareva injunction, which froze all of the Defendants'

assets, an interlocutory injunction against further infringement of the Plaintiff's trade-mark, and awarded Microsoft solicitor-client costs.

In *Johnson & Johnson, Lifescan Inc. v. Babar Butt, Jane Doe and John Doe et al.*, (2007), 162 A.C.W.S.(3d) 232 (Ont. S.C.J.), Johnson & Johnson and Lifescan Inc. successfully obtained an Anton Piller Order in Ontario Superior Court to pursue both named and unnamed defendants for the sale of counterfeit test strip kits for diabetes patients bearing their trade-marks in Canada. In this particular motion the defendants sought to obtain a declaration holding an *ex parte* Order issued by the United States District Court of New York invalid, which sought to freeze Royal Bank of Canada accounts of the defendants in the U.S., but the motion was denied. Parallel proceedings for an Anton Piller Order against sellers of the counterfeit test strip kits were also successfully brought in New York State.

8. CONTRASTING COUNTERFEIT GOODS FROM GREY MARKET GOODS

In contrast to grey market goods, “counterfeit” covers both counterfeit (trade-mark forgery) and pirated (copyright infringing) products. Virtually every type of product has been and is being counterfeited. Internationally sourced counterfeit products transit around the world from and to numerous countries, including Canada. Counterfeit goods are sold openly as counterfeit products or fraudulently as the real thing at wholesale, retail, and “e-tail” and through other channels leading to end consumers. Profits are high and criminal penalties and civil awards have tended to be relatively low in Canada making them a minor cost of doing business. However, in a number

of recent cases Canadian courts have made substantial awards directed at addressing culpability of and deterring recidivist counterfeiters. A number of such cases from 2008 will be discussed below.

Mr. James Moody, former chief of the Federal Bureau of Investigation's (FBI) Organized Crime/Drug Operations, stated that counterfeiting would be "the crime of the 21st century."¹ Counterfeit goods are detrimental to consumers. These illegitimate goods cause significant financial losses for the right holders and legitimate businesses, as well as hindering sustainable economic growth in both developed and developing countries. Counterfeiting and piracy is a high profit, low-risk crime, which motivates criminals to engage in this type of activity, and International trade in counterfeit and pirated goods is a growing economic problem that will require a global initiative to tackle the challenge.² Steps are being taken to try to address this global phenomenon and the significant social and economic risks it has created around the world.

According to Wikipedia, a "counterfeit" is an imitation, usually one that is made with the intent of fraudulently passing it off as genuine. These counterfeit products are produced with the clear intention to take advantage of the established reputation and goodwill created by owners of genuine products the counterfeiters seek to imitate. Counterfeits, or "knock-offs", are made without the authority of the intellectual property owner (IPR rights owner). Counterfeit is frequently used to describe both forgeries of documents and currency, as well as the imitations of products such as clothing, pharmaceuticals, jewelry and watches, software, electronics and famous company logos and brands. Counterfeited goods are trademark and/or copyright

infringements, and legitimate IPR owners face many difficult challenges in attempting to stop the proliferation of these counterfeits, more recently due to the globalization of trade and technology, the virtual internet market and the low risk faced by criminals engaged in counterfeit activities.

Increasing global markets and the arrival of the “knowledge economy” and novel information technologies have changed the economic environment by creating new business models changing the way information is shared³. In this knowledge based economy, value lies in intellectual, as opposed to physical, capital. Intellectual property is an important part of the Canadian economy and economies around the world, and, as our country shifts towards an information based economy, intellectual property rights are becoming increasingly more important.⁴ Brand values today constitute on average 18% of the total business value of top companies.⁵ Schedule A shows some relatively recent values estimated for some of the world’s major brands, such as Coca-Cola with a brand value of 67 billion US dollars, Microsoft at 60 billion, and IBM at 56 billion. These figures demonstrate the importance to these companies and their markets that their brands are protected from knock-offs or pirated products.

Consumers of Counterfeit goods would argue that there is no harm in buying a fake Louis Vuitton purse from a makeshift vendor at a night market, or going on-line and downloading pirated videogames for little or no cost. LV makes hundreds of dollars in profit from every purse, and entertainment software companies show increasing profits almost every year. Other buyers of the knock-offs would argue that buying a Rolex knockoff from someone with a cardboard storefront on the sidewalk of a busy city doesn’t hurt anyone, given Rolex charges

thousands of dollars for a single watch. Fake luxury purses, watches, sunglasses, and software products, often sold on the street or over the internet, may seem like innocent purchases, but sometimes these simple transactions can have serious consequences. According to a report by the Royal Canadian Mounted Police, counterfeiters don't care about safety standards, quality controls for product materials or even your family's health, because their only interest is to make money, regardless of consequences. Counterfeiting is big business and "the proliferation of counterfeit and pirated goods in international trade poses an ever-increasing threat to the sustainable development of the world economy."⁶

In the last decade, there has been a global escalation in counterfeit products, or "knock-offs", as well as an increase in the range of counterfeit products. The preliminary findings of a major OECD report show an alarming expansion of the types of products being infringed, from luxury items to basic household products and items that have a direct impact on health and safety.⁷

Today, almost any product you can think of is counterfeited, including personal hygiene items, such as razor blades, shampoos and toothpaste; auto parts, airline parts, batteries, food, computer components, music, entertainment software, pharmaceuticals, and electrical products. At an International Anti-Counterfeiting Coalition (IACC) conference held in 2003, it was estimated the 7 to 9% of all world trade is in counterfeit goods, representing about a \$450 billion dollar market.⁸ In the United States alone, the US Customs Service seized more than \$44 million in counterfeit and pirated products in the first half of the 2005 fiscal year.⁹ If counterfeiting were a legitimate business, it would rank as one of the world's largest and most lucrative economies, larger than the gross national product value of many countries. To illustrate the proliferation of

counterfeits worldwide, attached as Schedule B is a summary of some statistics on seizures made in Europe and the United States in 2006 and 2007, as well as a Gallup survey showing types, intensity and frequency of counterfeit or pirated products purchased by consumers in the United States in 2006.

In an effort to increase profits, more businesses have moved their manufacturing to cheaper labour markets in developing countries, but with cheaper labour available in these poorly regulated or deregulated centres, such as China and eastern European bloc centres, there is little control over the character or quality of goods being manufactured and exported abroad or used domestically. In particular, luxury and apparel goods, as well as software products that can be reproduced at low cost, have been the target of major counterfeiting operations. China has been far and away the leading source of counterfeit items worldwide. In 2007 China accounted for 64% of the value of counterfeit goods, and Hong Kong was second with 6%, followed by the United Arab Emirates with 4%.¹⁰

The Royal Canadian Mounted Police state that it is becoming increasingly difficult to distinguish counterfeit products from legitimate ones. One reason is that counterfeiters are using technological advances to replicate legitimate products and packaging in order to fool consumers.¹¹ Because some counterfeit goods have health and safety features, the consumer can be at serious risk. For example, unsuspecting consumers put their health, even their life, in jeopardy each time they order and use counterfeit pharmaceuticals, which contain little or no active ingredients, and may in fact contain toxic ingredients. The International Anti-

Counterfeiting Coalition (IACC) published that: in 2001, it was estimated that approximately 192,000 people died in China because of taking fake drugs, in 1995, approximately 2500 Nigerians died from receiving a counterfeit meningitis vaccine and dozens of infant deaths in China are reported to have been caused by counterfeit infant formula.¹² According to the World Health Organization, 16% of counterfeit drugs contain the wrong ingredients and that 17% contain incorrect amounts of the proper ingredients, 60% of these prescription drugs have no active ingredient whatsoever.¹³ Sales of fake drugs are estimated to climb to a value of \$US 75 billion globally by 2010, an increase of over 90 percent from 2005.¹⁴

Fake electrical goods with improper insulation can cause fires and electrical shocks to unsuspecting consumers; fake batteries without proper venting and with unknown levels of illegal mercury can cause serious health and safety risks to children; levels of lead used in children's toys made in China have posed serious health risks; counterfeit sunglasses without proper UV protection can result in damaged eyes for unwary buyers; and while child labour may not be a problem in Canada or other Western world countries, it is prevalent in the impoverished and unregulated third world countries such as those in southeast Asia where counterfeiting is a major industry. According to the U.S. Customs and Border Protection (CBP), seizures of counterfeit batteries in 2008 alone totaled \$1.8 million, with the total value of seized electrical products at almost \$23 million dollars.¹⁵

International trade in counterfeit goods causes significant financial losses for the right holders and legitimate businesses, and it hinders sustainable economic growth in both developed and

developing countries. Counterfeiters are not innocent little con artists or isolated street peddlers simply trying to make a few extra dollars. Sales of fake drugs alone are estimated to climb to a value of 75 billion US \$ globally by this year, an increase of over 90% from 2005. Lower prices, inferior quality products and uncontrolled and unregulated labour practices used by counterfeiters all contribute to an uneven playing field, on which legitimate businesses can't fairly compete. Tens if not hundreds of millions of dollars invested in research and development, creative new technologies, safe labour standards and thousands of jobs for workers in legitimate businesses are undermined and at put at risk by the manufacture, distribution and sale of counterfeit products. Schedule C shows a chart of the estimated global flow of counterfeit goods as it radically increased from 1984 to 2005. That trend continues today.

Counterfeiting motivates criminals because it is seen as a low risk, high gain activity. Criminals manufacturing and distributing counterfeit products cut corners, use unsafe components and ingredients, conduct no safety testing, and have no reputation to worry about or protect...just the opposite of legitimate brand and IP owners, whose economic value and very existence depend on ensuring the quality and reputation for their products is of specific, high standards that consumers understand and expect for those products. Interpol stated that there is no question that there is a link between illicit sales of counterfeit goods and organized crime and terrorism. It has even been suggested that Al Qaeda itself may be funding itself in counterfeit goods.¹⁶ Organized criminal groups and terrorists are increasingly turning to intellectual property theft as a means to raise funds. The huge scale of economics wrapped up in counterfeiting has made it a global issue, and the priority of criminal intellectual property investigations has increased particularly

where the counterfeit products pose a health and safety risk.

Counterfeiting is theft. This increase of illegal counterfeit and pirated goods around the world is draining the world's economy, and requires strong enforcement. For many years, brand owners in the fashion and clothing industries have been concerned that standard approaches to combating anti-counterfeiting have not been sufficient in deterring further violations. In 2006, Japan and the United States launched the idea of a new plurilateral treaty to help fight against counterfeiting and piracy, the Anti-Counterfeiting Trade Agreement (ACTA) The ACTA initiative aims to establish international standards for enforcing intellectual property rights in order to fight more efficiently the growing problem of counterfeiting and specifically focus on activities that affect commercial interest rather than ordinary citizens.¹⁷ ACTA recognizes that international enforcement cooperation is vital to protect intellectual property rights. According to Kamil Idris, Director General of WIPO and former member of the United Nations International Law Commission "the most effective methods and procedures in the fight against infringement of IPRs are those involving criminal enforcement Large- scale, commercial counterfeiting and piracy operations have traditionally looked upon civil fines as just the cost of doing business . Civil actions are usually not equipped to curtail the black market. However, when the threat, or especially the reality, of prison is introduced into the mix, the real enforcement starts to take shape."¹⁸ Aggressive criminal enforcement is the primary way to deter counterfeiting. Another drawback to civil litigation can be that counterfeits of grey market goods (buying and selling goods at prices below those set by an official regulatory agency) are often difficult to identify and may have few realizable assets against which a judgment for damages can be enforced without

difficulty, whereas criminal proceedings may be more cost effective and expedient, as well as sending a strong message to counterfeiters.

If the price seems too good to be true, it probably is. Price is a big indicator in determining a counterfeit product. If the packaging has spelling errors or run-together words, and if it has a shoddy appearance, it is likely a counterfeit. As well, mis-aligned text or designs, and incorrect bar codes are indicators that a product is a fake. By using extra diligence and increasing one's consumer awareness, buyers can help to keep themselves and their families safe from potentially dangerous counterfeit products that may be dangerous.

So what is the impact of counterfeiting? The direct financial losses suffered by IP rights owners, and the lost tax revenues suffered by governments by reason of the non-payment of any taxes by black market counterfeiters, are the more obvious economic consequences of this criminal activity. However, as discussed above, there are just as serious consequences that should concern us all on a global front:

1. Counterfeit goods devalue legitimate goods when the counterfeits are of poor quality and/or are unsafe or unreliable;
2. Counterfeit goods negatively impact consumers by undermining the security of knowing whether they have purchased quality or even safe products;
3. There are health and safety risks associated with the purchase of counterfeit goods (eg., pharmaceuticals);
4. Counterfeit mechanical parts, such as brake parts for cars, industrial valves in

- factories and airplane parts, pose potentially life-threatening risks to consumers;
5. Materials used in counterfeit products can contain toxic materials (eg., lead or mercury) that also pose serious health risks.
 6. Human costs, through use of child labour and substandard health conditions for workers in unregulated countries, should be unacceptable in today's societies.

We must continue to try to educate consumers and governments to control the proliferation of counterfeits throughout the world, and hopefully implement better safeguards against this growing epidemic that threatens our global economy and our people everywhere.

Identification of counterfeit products and enforcement against intellectual-property crime is made more difficult by trade in grey goods. Claims that counterfeit products were believed to be genuine "grey market" goods, often supported by clearly bogus certificates of authenticity, are regularly made by importers, distributors and retailers of counterfeits. Willful blindness and fraud are fueled by robust trade in grey goods arising through diversion of products to take advantage of differential market pricing, and sale of excess inventory, overruns, seconds, etc. by brand owners and their authorized manufacturers and distributors. To make matters worse, there is a blurred boundary between grey and black markets as a result of unauthorized "back door" sales of "genuine products" by current or past authorized manufacturers. Further, grey market goods and counterfeits are generally distributed through secondary market channels and identifying the counterfeits can be very difficult since significant effort is put into making counterfeit products difficult to distinguish from genuine ones.

9. SOME RECENT COUNTERFEIT CASES IN CANADA – A New Cause for Hope?

In *Louis Vuitton Malletier S.A. v. 486353 B.C. Ltd. (dba Wynnie Lee)*, 2008 BCSC 799, Justice Boyd awarded significant damages against recidivist importers and retailers of counterfeit Louis Vuitton merchandise. Following the decision of Justice Snyder in *Louis Vuitton Malletier S.A. v. Yang*, 2007 FC 1179, she assessed trade-mark damages according to established judicial guidelines for nominal damages, adjusted for inflation and on a per turn over basis to each of the plaintiffs (Louis Vuitton and Louis Vuitton Canada). Noting the blatant disregard for prior court orders and enforcement efforts, she took into account sale through separate retail outlets and importation to increase the nominal damage award to \$540,000. In addition, she awarded \$100,000 as statutory damages for copyright infringement, awarding the maximum \$20,000 per work in respect of each store proven to have secondarily infringed. In addition, Justice Boyd awarded punitive damages totaling \$300,000, \$200,000 of which was specifically ordered against a primary principal, W. Lee who, along with another principal, were found to be personally liable.

At the original hearing, Justice Boyd adjourned issues relating to extent of liability of J. Lee, a sister of the primary principal and the only defendant who had attended at the summary trial. In a second decision 2008 BCSC 1418, applying similar principles but noting lack of evidence regarding J. Lee's early involvement in the counterfeiting activities, Justice Boyd awarded the plaintiffs an additional \$83,000 damages from Ms. Lee.

Immediately on obtaining judgment against Lee, such judgment was registered in the Land Title Office against residential property (the “Real Property”) owned by Lee in joint tenancy with her husband.

As Lee failed to pay any amount of the judgment owing, proceedings were initiated by our Vancouver office under British Columbia’s *Court Order Enforcement Act* (“COEA”) to enforce the judgment against Lee by proceeding with a Court-ordered sale of the Real Property. The process required a Registrar’s Report to issue from the Supreme Court of British Columbia detailing the interests held in the Real Property. In Lee’s only appearance in Court during the enforcement proceedings, she attempted to lead evidence that the Real Property was held in trust for her parents with Lee merely being a beneficial owner. For numerous reasons, including failure to authenticate the alleged trust document and failure to register the trust document against the Real Property, the Registrar’s Report did not recognize the alleged trust and held that Lee was legal owner of the Real Property along with her husband. Subsequently, on further application to the Supreme Court of British Columbia, the Court ordered that the entire Real Property be sold to satisfy the judgment against Lee which was owing to Louis Vuitton. In coming to this decision, the Court accepted the arguments that selling the entire Real Property, as compared with Lee’s half-interest in the Real Property, was practical in that (a) it avoided trying to sell a half interest in the Real Property; (b) sale of the entire Real Property would satisfy both the judgment and an outstanding mortgage on the Real Property; and (c) there would be a benefit to both Lee and her husband in that their debt obligation to the mortgage holder would be paid

out. Notwithstanding the fact that Lee only held a one-half interest in the Real Property, the Court agreed with these arguments and the entire Real Property was ordered to be sold by the Sheriff in accordance with section 96 of the *COEA*. The foregoing provides a good example of the importance of determining a defendant's assets before initiating legal proceedings against a defendant for counterfeiting activity.

In *Microsoft Corp. v. Cerrelli*, 2007 FC 1364, Justice de Montigny considered cost submissions in respect of Anton Piller, Mareva, interim and interlocutory injunction proceedings brought by Microsoft against the defendants. The defendants included an individual, Cerrelli, and various companies and other legal entities controlled by him. Cerrelli and two of his companies had been found liable for sale of counterfeit copies of Microsoft software by Justice Harrington in late 2006 (2006 FC 1509). Noting that Justice Harrington had characterized Cerrelli's counterfeiting activities as reprehensible, scandalous and outrageous and the fact that they had continued after Justice Harrington's judgment, Justice de Montigny confirmed that an award of solicitor client costs was warranted. He observed that some of the work undertaken was difficult to separate between the case before him and contempt proceedings based on the previous case. He ordered payment of \$286,000 forthwith out of funds frozen pursuant to the Mareva injunction and indicated that the plaintiff could claim additional amounts in the contempt proceedings.

The *Microsoft v. Cerrelli* litigation is an interesting example of the interface between the grey market and the black market. In his lengthy judgment, Justice Harrington discussed the Microsoft business model and ultimately declined to grant an injunction that would keep the

defendants "out of the grey market" (2006 FC 1509 at p 132). Less than a year later, Microsoft was back in court seeking extraordinary remedies against the continuing counterfeiting activities of the defendants.

In *Chanel S. de R.L. c. Genève Accessoires Inc.*, 2008 CF 87., Justice Martineau considered an application to set aside default judgment in a case involving counterfeit Chanel jewelry. The defendant asserted that it had purchased the infringing articles in good faith but the court noted firstly that intent was not an issue and secondly that the extremely low price of the product should have made the experienced individual defendant suspicious. In the end result, the application was dismissed and default judgment confirmed.

In *Hyundai Auto Canada v. Cross Canada Auto Body Supply Ltd.*, 2008 FCA 12, the federal Court of Appeal affirmed a decision of the trial division dismissing an application for an interlocutory injunction enjoining the defendant from using the HYUNDAI trade-mark in association with car parts. The court noted that the defendant claimed the parts were genuine but refused to identify the source, that the plaintiff had not adduced any evidence that the products were not genuine and that there was some evidence that the parts were made by the same company that supplied the plaintiff. The court was unable to find any error in the trial judge's conclusion that evidence regarding irreparable harm was speculative and combining that with delay in bringing injunction proceedings and the discretion in the trial judge, was sufficient to dismiss the appeal with costs.

In *Bell Expressvu Limited Partnership v. Rodgers*, 2008 CanLII 36911 (ON S.C.), Justice Mesbur considered a cost award in respect of contempt proceedings arising from an Anton Piller order related to satellite piracy by the defendant. In the contempt proceedings, Justice Mesbur had ultimately found the defendant Steven Rodgers in contempt and sentenced him to four months incarceration, but had not found his father, Ross Rodgers, against whom proceedings had also been prosecuted by the plaintiff, to be in contempt. She awarded costs to Ross Rodgers but found the circumstances appropriate for a Sanderson order directing that the cost be paid by Steven Rodgers. Further, she awarded costs to the plaintiffs of \$500,000 payable by Steven Rodgers. While Justice Mesbur commented that the claim of \$700,000 in costs by the plaintiff was "staggering", she also noted the culpability of Steven Rogers for the costs and made an award that she felt gave a clear message that contemptuous behavior would have significant financial consequences.

In *Canadian Private Copying Collective v. First Choice Recording Media Inc.*, 2008 FC 636., Justice Hugessen considered an application for default judgment in respect of payment of levies under the *Copyright Act* in respect of blank recording media. He found the circumstances were such that the corporate veil should be pierced and that individual defendants be liable along with their corporations (that had been dissolved or otherwise rendered judgment proof). He ordered payment of over \$7,000,000 in respect of unpaid levies and interest and that the two individual defendants be jointly liable for the entire amount. Further, by way of penalty, he ordered the defendants pay five times the levies (pursuant to s.88(2) of the *Copyright Act*).

It is submitted that the foregoing cases evidence the willingness of Canadian courts to impose significant damages, costs and penalty awards against recidivist IP criminals in civil proceedings.

The courts have shown they are willing to take into account intentional, repeated and contemptuous counterfeiting and evasive tactics used by counterfeiters, and to utilize available tools to maximize awards against recidivists in particular. Hopefully, the counterfeiter mentality that one can blatantly infringe in the face of orders and agreements not to and that enforcement efforts will nevertheless present a manageable cost of doing business will change as a result.

10. CRIMINAL REMEDIES

Current Criminal Enforcement Protocol

The RCMP is the primary enforcement agency in respect of IP crimes in Canada. However, the RCMP has insufficient resources dedicated to combating IP crime to proceed against all pirated and counterfeit products brought to their attention. Accordingly, priorities have been set by the RCMP.

Generally, in order of priority, the RCMP will take action:

- (i) in respect of products that raise health and safety concerns;
- (ii) in respect of products that are linked to organized crime organizations;
- (iii) in respect of large commercial operations; and
- (iv) in respect of repeat retail offenders.

If CBSA or RCMP detects suspect goods that raise issues high in the priority list, the goods will be detained. The RCMP contacts rights holders and will take steps as deemed appropriate based on the circumstances of the particular case. To the extent that the importer/distributor is a first time offender and there are no clear facts to support recidivism, the RCMP may simply seek a signed relinquishment from the importer/distributor. Alternatively, they may undertake an investigation and lay charges, in which case they will generally look to the rights holder for evidence establishing the infringing nature of the products and other facts that may be required. Further, the RCMP or prosecutors will normally request evidence as to the impact importation/distribution of pirated copyright works has on the copyright owner.

While it is by no means certain that the RCMP will prosecute in any given case, to the extent that a copyright owner becomes aware of commercial importation of products that infringe copyright in Canada, the RCMP should be contacted. The RCMP has created a complaint form that it may ask IP rights holders to fill out when making complaints regarding IP crime.

Generally, rights holders should cooperate as fully as practicable with the RCMP if the RCMP is pursuing criminal copyright infringement, since no effective prosecution will be possible without such cooperation. To the extent that the RCMP does not believe a particular rights holder will cooperate, they will generally be reluctant to take any steps against infringement of that rights holder's rights in the future.

The RCMP currently has a synopsis of its IP crime enforcement efforts and its priorities in that regard available on-line (see: www.rcmp-grc.gc.ca/fep-pelf/ipr-dpi/index-eng.htm). Contact

information for knowledgeable officers with experience in IP crime enforcement is also provided.

1. *COPYRIGHT CRIMINAL PROVISIONS*

Section 42 of the *Copyright Act* makes it a criminal offence to do certain acts in respect of works or other subject matter in which copyrights subsists.

The sections states:

“42(1) Every person who knowingly:

- (a) makes for sale or rental an infringing copy of a work or other subject-matter in which copyright subsists,
- (b) sells or rents out, or by way of trade exposes or offers for sale or rental, an infringing copy of a work or other subject-matter in which copyright subsists,
- (c) distributes infringing copies of a work or other subject-matter in which copyright subsists, either for the purpose of trade or to such an extent as to affect prejudicially the owner of the copyright,
- (d) by way of trade exhibits in public an infringing copy of a work or other subject-matter in which copyright subsists, or
- (e) imports for sale or rental into Canada any infringing copy of a work or other subject-matter in which copyright subsists is guilty of an offence and liable
- (f) on summary conviction, to a fine not exceeding twenty-five thousand dollars or to imprisonment for a term not exceeding six months or to both, or
- (g) on conviction on indictment, to a fine not exceeding one million dollars or to imprisonment for a term not exceeding five years or to both.”

It will be noted that the section specifically provides that knowing importation for sale or rental into Canada of an infringing copy of a work is an offence.

When a decision is taken to detain and proceed against pirated copyright works or counterfeit products, the RCMP takes possession of the property and works with right holders to establish the infringing nature thereof. Once criminality is established, proceedings will be commenced for seizure under section 490 of the *Criminal Code* and the RCMP may bring criminal charges under section 42 of the *Copyright Act* and/or other applicable offences.

Other offences may include different offences under the *Criminal Code* such as trade-mark forgery and passing off (s.406,408), fraud (s.380-see for example: *R. v. Nguyen* (1989), 27 C.P.R. (3d) 415 (ONT.DIST.CT.)) and conspiracy (see *R. v. Stern*, [1981] OJ No. 1589 (H.C.)); or under other statutes such as the *Hazardous Products Act*, *The Consumer Packaging and Labelling Act*, etc. However, in many cases, the RCMP will not pursue charges at all due to the cost of prosecution or difficulties proving the necessary elements of the offence.

With respect to section 42 of the *Copyright Act*, difficulties may be encountered in establishing the necessary *mens rea*.

As noted above, the criminal sanctions provided in the *Copyright Act* prescribe a maximum fine of \$25,000, six-months imprisonment or both for summary conviction and a maximum fine of \$1,000,000, five years imprisonment or both for conviction on indictment under s. 42. However,

in practice, penalties imposed by the court have been considerably less than the maximums. Further, until recently, the penalties were clearly insufficient to provide any effective deterrence.

In a couple of recent cases there has been imposition of significant monetary penalties in prosecutions in other provinces (see: *R. v. AFC Soccer* (2002), 22 C.P.R. (4th) 369 (MAN PROV) Rev'd on other grounds (2004), 32 C.P.R. (4th) 53 (MAN CA); *R. v. San Francisco Gifts* (unreported decision of the Alberta Provincial Court; 2005)). While the fines in those cases were significant, it is submitted that they were insufficient to act as real deterrence.

In the first case, no fine was ultimately paid due to a technical defence succeeding on appeal. The fine originally imposed was calculated as 25% of gross revenues, despite the admitted fact that the revenues were based on incomplete records. When one considers the available markup on most counterfeit and pirated products, and the fact that the bulk of such products are sold with impunity, a 25% royalty will likely be insufficient to provide any real deterrence.

In the second case, a significant fine was imposed in a situation where the products being sold (electrical lamps) raised serious health and safety issues. Newspaper reports indicated that significant volume of the product had been sold by the accused. Further, newspaper reports indicated that the accused (which was a company) was under bankruptcy protection. Whether or not the fine will be paid remains to be seen.

Notable is the fact that, in both cases, no charges were ultimately prosecuted against the individuals responsible for the offences in question.

In *R. v. Chui Lau*, (16 November 2006), Richmond 48082-1; 48984-2C (B.C. Prov. Ct.), criminal charges for copyright infringement were brought against the Accused, a recidivist counterfeiter who had continued to sell counterfeit CDs and DVDs. The Accused was found to be guilty and was sentenced to a 12-month custodial sentence and fined \$5000. In sentencing the Accused, the Judge stated as follows:

This is theft. Mr. Neaman is correct; it is a widespread practice and because of that, some people perhaps may not look at it as one would regard theft of other items. But the concept of intellectual property is a very important one in our society. Intellectual property protects creativity. It protects original ideas and creates property out of those ideas, enabling people who come up with those ideas to be rewarded for being able to originate and create. That concept is very important to the evolution and progress of our society. Indeed, what differentiates a progressive society or a society with a higher standard of living from other societies is the level of original thinking, creativity, inventiveness. There is a societal interest involved here which, in my view, is very important. In my view, this kind of theft constitutes a very serious offence, more serious than a theft of some other material item or property because it strikes at the heart of what differentiates a progressive creative society from one that is not.

In *R. v. Kaman Chan*, (5 November 2007), Newmarket 06 07828 (Ont. Prov. Ct.), a recidivist counterfeiter was criminally charged under the Copyright Act for continuing to sell counterfeit electronic software. The counterfeiter's previous corporation had been the subject of a court-imposed fine. The Court sentenced the Accused to a house arrest for two years and imposed a \$40,000 fine.

2. TRADE-MARK CRIMINAL PROVISIONS

Most counterfeiting cases involve well-known trade-marks and valid registrations from the Canadian Trade-marks Office and are readily available for use by enforcement officials.

The relevant provisions of the *Criminal Code* dealing with trade-mark counterfeiting are as follows:

10.2.1. s.406 – Forgery of Trade-marks

- For the purposes of this Part, every one forges a trade-mark who
 - (a) without the consent of the proprietor of the trade-mark, makes or reproduces in any manner that trade-mark or a mark so nearly resembling it as to be calculated to deceive; or
 - (b) falsifies, in any manner, a genuine trade-mark.

10.2.2. s.406(a) – elements

- Without the consent of the proprietor of the trademark
- Prosecution bears onus – witness from IPR holder
- Be careful to name correct trade-mark owner
 - R. v. Strong Cobb Arner of Canada Ltd. (1974), 13 C.P.R. (2d) 216.
- Makes or reproduces in any manner
- Broad meaning including use in advertisement
 - R. v. Gross (Que.C.A., 1918) – BVD 1918 CarswellQue 38, 28. B.R.54.
- the trade-mark or a mark so nearly resembling it as to be calculated to deceive
- “trade-mark” as per TMA
- “same trade-mark” if same dominant features are maintained
 - Promafil Canada (FCA, 1992) 44 C.P.R. (3d) 59.

- If same trade-mark and same wares or services no issue
- If not same trade-mark – is counterfeit trade-mark “calculated to deceive” ?
- not defined in CC or TMA
- Likely court will apply “confusion” analysis under TMA
- Clearly not a side-by-side analysis
 - R. v. Authier (Que.Q.B., 1897), 6 B.R. 146, 1 C.C.C. 68
- Analysis on objective consideration of all surrounding circumstances (TMA s.6(5))

10.2.3. s.406(b) – elements

- Falsifies, in any manner, a genuine trademark
- Prior to 1953-54 CC reenactment, subsection included “whether by alteration, addition, effacement or otherwise”
- On proper construction, directed to accused altering trade-mark owners own use of the trade-mark

10.2.4. s.407 – Offence: Forgery

- Every one commits an offence who, with intent to deceive or defraud the public or any person, whether ascertained or not, forges a trade-mark.
- Adds *mens rea* to 406
- “intent to deceive or defraud the public or any person, whether ascertained or not”
- Narrow interpretation is not supported by any jurisprudence
- Deceit - inducing another to believe a thing is true which is known to or believed to be false -
Defraud is to deprive by deceit
 - R. v. Globe Finance (Ch., 1903)
In Re London and Globe Finance Corporation, Limited, [1903] 1 Ch. 728

- Seek evidence that
 - Accused knew he was making or reproducing the trade-mark of another
 - Accused knew that he did not have permission from the trade-mark owner
 - Accused knew that consumers or members of the public could be deceived as to the source, quality, etc.
 - Accused has prior convictions or complaints, took steps to conceal activities or had knowledge regarding price or quality of legitimate wares may be useful

- It is the author's contention that, in circumstances where knowing copying of a famous trade-mark with intent to place articles in the market can be shown, the intent to deceive or defraud is established

- Be careful to name correct trade-mark owner (and accused)
 - R. v. Strong Cobb Arner of Canada Ltd., supra.
 - R. v. AFC Soccer (Man. C.A., 2004) 32 C.P.R. (4th) 53

10.2.5. s.408 – Offence: Passing-Off

- Every one commits an offence who, with intent to deceive or defraud the public or any person, whether ascertained or not,
 - (a) passes off other wares or services as and for those ordered or required; or
 - (b) makes use, in association with wares or services, of any description that is false in a material respect regarding
 - (i) the kind, quality, quantity or composition,
 - (ii) the geographical origin, or
 - (iii) the mode of the manufacture, production or performance of those wares or services.

- The wording of s. 408 (a) and (b) is similar to the wording of s. 7 (c) and (d) of the TMA
- The *actus reus* of s. 408(a) is the substitution of goods “as or for those ordered or required”

- Sale of counterfeit product to a purchaser who knows it is a counterfeit product is not an offence under s. 408(a)
 - R. v. Ferjo (Ont. C.A., 1994) 58 CPR (3d) 223.

- The *actus reus* of s. 408(b) is the use on wares or services of a description that is false in a material respect regarding the wares or services
- Kind, quality, quantity or composition
- Geographical origin
- Mode of manufacture, production or performance
- Selling used hearing aids as new resulted in conviction based on misrepresentation as to quality
 - R. v. Riordan (NSCA, 1973) 8 N.R.R. (2d) 73.

- Evidence that used trade-mark of another on wares, in writing or orally, in advertising or in association with the sale of the wares or provision of services, establishes use of false description
 - R. v. Cadiieux (Ont. Co. Ct., 1930) 54 CCC 361

- Evidence that quality of legitimate wares exceed that of counterfeit and knowledge of public of quality support argument that use of trade-mark is use of false description as to quality under s.408 (b)
- Consider other descriptions which may be false due to “copying” of legitimate products packaging – place of manufacture, etc.
- Charge separately under subsections – s.408(b) is not an included offense under s.408(a)
 - R. v. Ferjo (Ont.C.A., 1994), supra.

- *Mens rea* is “intent to deceive or defraud the public or any person, whether ascertained or not”

- Same as s. 407
- Broad interpretation available
- Confusion as to source or affiliation at the time of sale or after sale is deception. Query why else the accused would use the trade-mark?

10.2.6. s.409 – Offence: Trade-mark Forging Instruments

(1) Every one commits an offence who makes, has in his possession or disposes of a die, block, machine or other instrument designed or intended to be used in forging a trade-mark.

(2) No person shall be convicted of an offence under this section where he proves that he acted in good faith in the ordinary course of his business or employment.

10.2.7. s.409 – Offence: Elements

- Little jurisprudence under this section
- *Actus reus* is the making, possessing or disposing of an instrument designed or intended to be used in forging a trade-mark
- instruments limited only by requirement that it be designed or intended to be used in the unauthorized making or reproduction of a trade-mark
- *Mens rea* is intent to cause the *actus reus* and knowledge of the existence of the instruments

10.2.8. s.409(2) – Good faith defense

- Protect innocent parties asked by others to make or possess forging instrument
- Protect parties with colour of right – Seiko Boxes
 - R. v. Impenco (Que Ct. C. Q., 1990) [1990] J.Q. no. 2146 (French version only)
 - Consumers v. Seiko (SCC, 1984) 1 CPR 3d 1.

10.2.9. s.410 - Other offences in relation to Trade-marks

- Every one commits an offence who, with intent to deceive or defraud,
 - (a) defaces, conceals or removes a trade-mark or the name of another person from anything without the consent of that other person; or
 - (b) being a manufacturer, dealer, trader or bottler, fills any bottle or siphon that bears the trade-mark or name of another person, without the consent of that other person, with a beverage, milk, by-product of milk or other liquid commodity for the purpose of sale or traffic.

10.2.10. s.410(a) – Deface, conceal or remove trade-mark or name

- *Actus reus* is the defacing, concealing or removing of the trade-mark or name of another person without the consent of that person
- *Mens rea* is the intent to deceive or defraud
- where trade-mark is removed or concealed and a different trade-mark is displayed on wares or associated manuals provided to third parties – commission of offense established
 - R. v. Locquet (Que. Ct., 1985) 5 CPR 3d 173.

10.2.11. s.410(b) – Reusing branded bottles

- *Actus reus* is the refilling of a branded bottle without the consent of the brand owner with a liquid commodity for the purpose of sale
- *Mens rea* requires an intent to deceive or defraud
- Section has been amended as a result of jurisprudence finding that milk was not a beverage, and to broaden offense to cover registered or unregistered trade-marks
 - R. v. Rouse (Ont. C. A., 1936) [1936] 4DLR 797.
- Section may now cover all liquid commodities including, for instance, perfume

10.2.12. s.411 – Used goods sold without disclosure

- Every one commits an offence who sells, exposes or has in his possession for sale, or advertises for sale, goods that have been used, reconditioned or remade and that bear the trade-mark or the trade-name of another person, without making full disclosure that the goods have been reconditioned, rebuilt or remade for sale and that they are not then in the condition in which they were originally made or produced.
- *Actus reus* requires sale, exposure, possession or advertising for sale, of used goods without disclosure of their history
- *Mens rea* includes intent to commit the *actus reus* and knowledge of the modified or used nature of the goods – intent to deceive or defraud not required
- Sale of a modified computer program without disclosure of the modification constitutes offence
 - R. v. Lachowich (Ont. Prov. Ct., 1986) 10 CIPR 186.
- Sale of reconditioned spark plugs as “renewed spark plugs” does not constitute offence
 - A.c. Spark Plug (Ont. C.A., 1934) [1934] 3 DLR 790.

10.2.13 s.412. (1) – Punishment

- 412.(1) Every one who commits an offence under section 407, 408, 409, 410 or 411 is guilty of
 - (a) an indictable offence and is liable to imprisonment for a term not exceeding two years; or
 - (b) an offence punishable on summary conviction.
- 412(2) Anything by means of or in relation to which a person commits an offence under section 407, 408, 409, 410 or 411 is, unless the court otherwise orders, forfeited on the conviction of that person for that offence.
- May proceed by indictment or summary conviction

- Limitation period of six months in respect of summary conviction – penalty of maximum \$5000 fine and/or six months in prison
 - CC s. 787
- No limitation in respect of indictment – fine may be imposed instead of imprisonment
 - CC s. 718, 719
- Forfeiture of means and goods flows from conviction unless the court orders otherwise

10.2.14. Trade-mark Forgery

- While tools do exist, the provisions are unwieldy and not suited to effective deterrence of modern trade-mark counterfeiting
- Proof that deceiving direct purchaser should not be required for passing-off offence and should not require creativity in finding a false description
- Monetary penalties should be increased – economic deterrence is imperative

10.2.15. s.380 (1) – Fraud

- Every-one who, by deceit, falsehood or other fraudulent means, defrauds the public or any person whether ascertained or not, of any property, money or valuable security or any service . . . is guilty of an offense . . .
- *Actus reus* is
 1. The prohibited act, be it an act of deceit, a falsehood or some other fraudulent means; and
 2. Deprivation caused by the prohibited act, which may consist in actual loss or the placing of the victims pecuniary interests at risk
 - R. v. Theroux (SCC, 1993) [1993] 2 S.C.R. 5.
 - R. v. Zlatic (SCC, 1993) [1993] 2 S.C.R. 29.

- Other fraudulent means encompass all means which can properly be stigmatized as dishonest applying a reasonable person standard
 - R. v. Olan (SCC, 1978) [1978] 2 S.C.R. 1175.

10.2.16. s.380 (1) CC – *Actus Reus*

- The dishonesty of “other fraudulent means” has, at its heart, the wrongful use of something in which another person has an interest, in such a manner that the other’s interest is extinguished or put at risk
- Counterfeit trade-mark use should clearly be found to be stigmatized as dishonest on a reasonable person standard
- Pirating copyright through distribution of unauthorized copies of videotapes and computer programs has been found to constitute fraud – see for example
 - R. v. Kirkwood (Ont CA, 1983) 42 O.R. (2d) 65.
 - R. v. Fitzpatrick (BCCA, 1984) 11 C.C.C. (3d) 46.
 - R. v. Bonamy (BCCA, 2000) 6 CPR (4th) 1.
- Trade-mark rights, like copyrights, are exclusive rights to do something, in the case of registered trade-marks, the exclusive right to use a trade-mark in respect of registered wares and services
- Counterfeit trade-mark use is clearly a wrongful use of something the trade-mark owner has an interest in and clearly puts the owner’s interest at risk
- With respect to deprivation, it is clear that there is no need for a direct nexus between the accused and the person to be deprived
 - R. v. Kirkwood, *supra*.
- Use of counterfeit trade-marks exposes trade-mark owners to risk of pecuniary loss through lost sales, depreciation of goodwill, loss of distinctiveness and damaged reputation

- Use of counterfeit trade-marks exposes legitimate distributors and retailers to risk of pecuniary loss through unfair competition
- Use of counterfeit trade-marks exposes purchasers of counterfeit products to risk that not purchasing what they thought and, if reselling, to action by trade-mark owner
- There is a breach of a deemed warranty under TMA when counterfeit products are sold
 - s.8 - Every person who in the course of trade transfers the property or possession of wares bearing any trade-mark, unless otherwise expressly stated in writing, shall be deemed to warrant, to the person to whom the property or possession is transferred, that the trade-mark has been and may be lawfully used in connection with the wares

10.2.17. s.380 (1) CC – *Mens Rea*

- Mens rea requires subjective knowledge of the prohibited act and that the prohibited act could have a consequence of deprivation or risk of deprivation
- Must prove knowledge that products being distributed or sold are counterfeit
- counterfeiters knowingly and recklessly use trade-marks to trade on the goodwill associated with the mark
- willingness to enter into commercial distribution of counterfeit products constitutes evidence from which an awareness of risk to the trade-mark owner, distributors and retailers may be inferred
 - R. v. Kirkwood, supra.

10.2.18. Fraud – Conclusion

- Charges under s.380 are a viable option when pursuing suspects selling counterfeit products at any level in the chain of distribution

Other CC Offences re: Trade-marks and Counterfeit Products

- CC s. 126 – contravention of Act of Parliament
 - TMA s.9, 10.1, 11.14, 11.15, 22
 - Competition Act, s.52
- CC s.376(2), (3) - Counterfeiting Mark
 - TMA s.9, 10.1
- CC s. 354 – possession of property derived by crime
 - S.357, 360
- CC s.366 – forgery – false documents
- CC s.489, 490 – seizure and detention

11. CONCLUSION

- Counterfeit trade-mark usage is a serious problem
- Unacceptable that criminal prosecutions proceed under the guise of copyright offences – not always possible and often not appropriate
- As discussed, there are tools available under the Criminal Code and they should be aggressively used
- In the meantime, one should pursue more effective provisions clearly directed to stopping any dealing in counterfeit products in today's reality of products imported from China and elsewhere.

ENDNOTES

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SCHEDULE A**Estimated brand values, 2006**

Rank	Brand	Value (billion USD)
1	Coca-Cola	67
2	Microsoft	60
3	IBM	56
4	GE	49
5	Intel	32
6	Nokia	30
7	Toyota	28
8	Disney	28
9	McDonald's	28
10	Mercedes-Benz	22
11	Citigroup	21
12	Marlboro	21
13	Hewlett-Packard	20
14	American Express	20
15	BMW	20
16	Gillette	20
17	Louis Vuitton	18
18	Cisco	18
19	Honda	17
20	Samsung	16

Source: Interbrand, Business Week (2006)

SCHEDULE B**US 2007 Border Seizures**

Footwear	\$77,781,415
Wearing Apparel	\$27,005,914
Consumer Electronics	\$16,041,694
Handbags/Wallets/Backpacks	\$14,214,304
Watches/Parts	\$13,355,985
Pharmaceuticals	\$11,137,578
Computers/Hardware	\$9,336,893
Media	\$7,884,152
All Other Commodities	10% of total
Number of Seizures	13,657

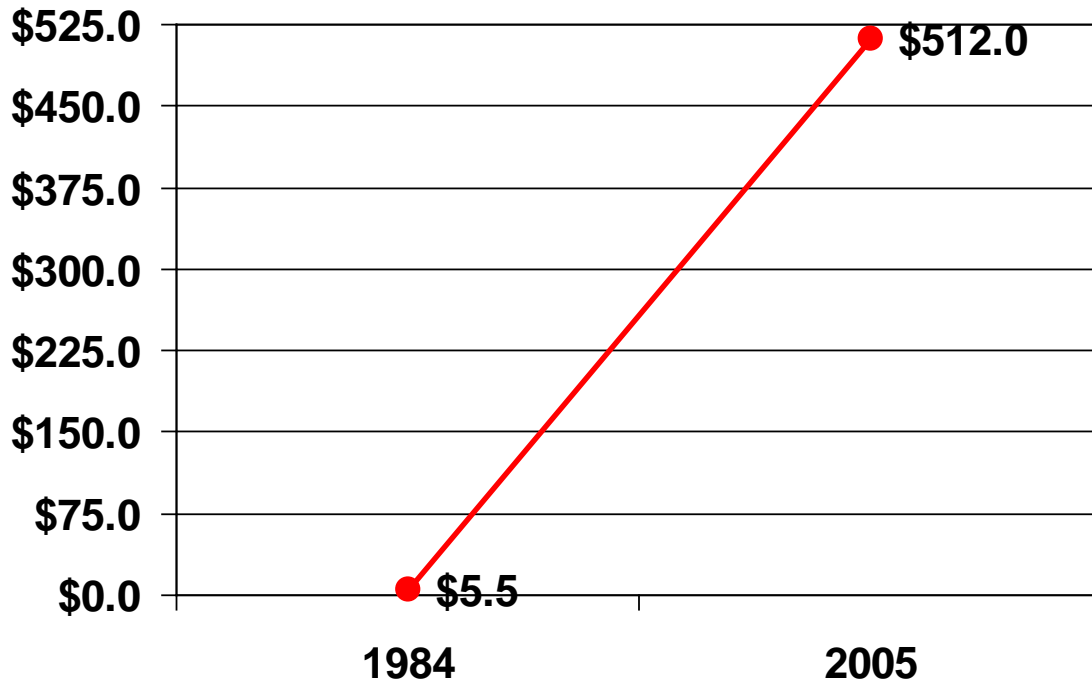
EU 2006 External Border Seizures

Cigarettes	€73.920.446
CD, DVD, Cassettes	€15.080.161
Cloths and Accessories	€14.361.867
Other	€13.287.274
Electrical Equipment	€2.984.476
Medicines	€2.711.410
Toys and Games	€2.370.894
Cosmetics/Personal Care	€1.676.409
Foodstuff and Beverages	€1.185.649
Jewelery	€943.819
Computer Equipment (hardware)	€152.102

SCHEDULE B**United States: Types, intensity and frequency of counterfeit or pirated products purchased by consumers, 2006**

Sector	% buying infringing product	Respondents who reported purchases of counterfeit or pirated products during the past 12 months				
		% buying infringing product	Number of units purchased on most recent occasion		Number of occasions (in last 12 months)	
			Mean	Median	Mean	Median
Songs, music CDs or Audiocassettes	6.5	47	20.7	2	14.7	4
Movies, such as VHS, VCDs or DVDs	5.1	37	6.6	1	10.5	2
Computer Operating Systems or applications	4.1	30	3.6	1	2.0	1.5
Brand name clothing, designer bags and footwear	3.3	24	4.4	2	2.1	1
Perfume or cosmetics	2.2	16	1.7	1	1.5	1
Toys	1.7	12	2.9	2	2.8	2
Jewelery	1.5	11	2.2	1	2.0	1
Food	1.3	9	9.0	2	1.7	2
Video games	1.2	9	3.6	1	5.8	3.5
Alcoholic beverages, soft drinks or mineral water	1.2	9	3.9	2.5	15.1	5
Pharmaceutical or medicines, not generics	1.0	7	3.4	2	4.0	2
Tobacco	0.9	7	4.5	2	10.7	2
Tools or auto parts	0.8	6	2.6	1	1.7	1.5
Brand name watches	0.6	4	1.2	1	2.0	1

Source: Gallup (2006)

SCHEDULE C**Global Flow of Counterfeit Goods
(in billions)**

*Source: Tim Phillips, Knock Off: The Deadly Trade in Counterfeit Goods
The True Story of the World's Fastest Growing Crime Wave, 2005*