



Canadian Intellectual
Property Council
Conseil canadien de la
propriété intellectuelle

COUNTERFEITING IN THE CANADIAN MARKET: HOW DO WE STOP IT?

June 2012



THE CANADIAN INTELLECTUAL PROPERTY COUNCIL (CIPC)

- An arm of the Canadian Chamber of Commerce.
- Presses for the adoption of stronger intellectual property rights (IPR) protection both in Canada and throughout the world.
- Lobbies the government to adopt the necessary legislation and provides the resources to combat the rampant infringement of IPR in Canada.
- Represents a broad spectrum of industries, all of which rely on IPR for their success.
- Promotes a better understanding of the importance of IPR for continued economic prosperity and competitiveness.

Canada lags in terms of the protection of IPR, a trend that has resulted in negative economic impacts and poses a threat to the health and safety of Canadian consumers. It is essential that the Canadian government adopt policies that will stimulate Canada's knowledge-based economy, thereby facilitating job growth and promoting innovation in these industries. Canada must provide a competitive IPR environment which will attract investment and allow Canadian businesses to grow and flourish. The adoption of stronger protection for IPR in Canada is also essential to protect Canadian consumers from the dangers of counterfeit goods.

Every year that passes without the adoption of the proper legislation, more Canadians are exposed to harmful counterfeit products, which in some cases have been linked to organized crime, serious illness and death.

The CIPC needs your support. To get involved with the fight for stronger IP rights in Canada, please contact:

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EXECUTIVE SUMMARY

In 2009, the Canadian Intellectual Property Council (CIPC) released the report *A Time for Change: Toward a New Era for Intellectual Property Rights in Canada*. That report called for a four-pronged approach to the creation of an effective regime for the protection of intellectual property rights (IPR) in Canada. That approach included legislative change and the creation of IPR institutions, an IP crime task force and a program of public education. In February 2012, the Canadian Chamber of Commerce released an initiative identifying the top 10 barriers to competitiveness where a lack of IP protection was identified as a problem. While the first steps of legislative change have been initiated in respect of Canada's copyright regime, the regimes for border enforcement, protection of trade-marked goods and the prevention of counterfeiting in Canada are languishing. Rights holders, on their own initiative and through organizations including the CIPC, have been proactive in educating consumers, police officers and the judiciary, but such a response by rights holders cannot replace coordinated government action. No progress has been made on the creation of IPR institutions or an IP crime task force. Canada's IPR regime continues to have serious weaknesses that undermine the country's innovation capacity and economic prosperity.

While our major trading partners have continued to seek out and implement innovative solutions to address the challenges presented by counterfeit and pirated goods, Canada's system is outdated and does not provide adequate protection to its citizens, particularly where health and safety issues are concerned. The practices of professional counterfeiters are continuing to evolve as they implement new techniques in order to evade the best efforts of rights holders to prevent their activities.

There has long been consensus among government, the business community and the general population that action is required to protect businesses and individuals against the harm of counterfeit goods —

but this consensus has not translated into action. *A Time for Change* explained in detail the importance of intellectual property to the development of a strong and innovative digital economy. While Bill C-11 is a strong first step in amending the copyright regime in Canada, at the time of writing this report the bill had not been passed. For Canada to be a global leader in the digital economy it must address the areas where its IP regime continues to falter. In addition to swift action to pass Bill C-11, there are five areas where urgent action is required:

- Amend Canadian law to ensure Canada is meeting the minimum requirements of the international agreements to which it is a signatory, including the introduction of *ex officio* powers for customs officials.
- Amend Canadian law to overcome internal inconsistencies in its application, including providing effective civil and criminal sanctions for counterfeiting and piracy.
- Encourage enforcement officials to seek strong remedies in the case of IPR infringement and ensure prosecutors exploit the full range of remedies available to them including the proceeds of crime regime.
- Develop a tactical response to the challenges of counterfeiting in the digital age—including a strategy to deal with small shipments of goods ordered online and a system for recordation of rights.
- The government of Canada needs to take a proactive stance in combatting counterfeiting and piracy. Its leadership is essential to the development of an effective enforcement regime and the facilitation of stakeholder partnerships in the country. Key areas for involvement include developing an inter-agency IP council and an IP crime task force.

The recommendations in this report focus on actions that can create tangible improvements in these challenging areas.

Rights holders will continue to play an important role in proactively educating consumers about the identification of counterfeit and pirated goods and the risks that can be associated with them. They will commence actions to protect their rights using the tools available to them. However, the Canadian government must take action to create an effective regime to address the problems created by lax IPR protection in Canada and play a necessary role as a partner in enforcement to its international trading partners. As Canada moves toward a knowledge economy and looks to implement its strategy for a digital economy, a strong IPR regime is critical for Canadian businesses that seek to fully participate in the global economy.

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INTRODUCTION

Counterfeit: Made in imitation so as to be passed off fraudulently or deceptively as genuine; not genuine; forged.¹

Counterfeit Good: counterfeit trade-mark goods shall mean any goods, including packaging, bearing without authorization a trade-mark which is identical to the trade-mark validly registered in respect of such goods, or which cannot be distinguished in its essential aspects from such a trade-mark, and which thereby infringes the rights of the owner of the trade-mark in question under the law of the country of importation.²

Pirated Good: pirated copyright good shall mean any goods of which copies are made without the consent of the right holder or person duly authorized by the right holder in the country of production and which are made directly or indirectly from an article where the making of that copy would have constituted an infringement of copyright or a related right under the law of the country of importation.³

Whether we adopt the definition of counterfeit provided by dictionary.com or the definitions of counterfeit and pirated goods provided by the World Trade Organization (WTO) in the Agreement on Trade Related Aspects of Intellectual Property Rights (TRIPS), one thing is markedly clear: the problem of counterfeit and pirated products infiltrating the traditional and online marketplace continues at an unabated pace. For simplicity's sake, in this paper we use the term counterfeit to mean goods that infringe trade-mark and/or copyright and which are made in imitation to be passed-off as copies of an authentic copyright protected or trade-marked good but which are not genuine goods. These goods range from unauthorized copies of music and movies to fake medications and electronic components.

In 2007, two Canadian parliamentary committees acknowledged the impacts of IPR infringement and unanimously called for rapid action. The Standing Committee on Industry, Science and Technology concluded that Canada's laws were inadequate to effectively deal with counterfeiting and piracy and that Canada's enforcement regime lagged behind those of other developed countries.⁴ Despite these committee reports, and their clear recommendations related to increased powers for border officials, dedicated resources to address the problem and the need for alignment of the civil and criminal regimes, virtually no changes have been made to Canadian law dealing with counterfeit goods. In 2011, on the occasion of the signing of the Anti-Counterfeiting Trade Agreement (ACTA), the minister of International Trade stated: "Counterfeit and pirated goods are an increasingly global problem that requires a globally coordinated solution. We all have an interest in combatting counterfeiting and piracy because these activities cost billions of dollars each year in revenue and trade losses, which translate into higher prices, lost income and lost jobs for people employed in a range of industries – from film and pharmaceuticals to electronics."⁵ Though the CIPC is pleased that the Industry Committee is once again studying IPR in Canada this spring, as compared to our international partners, Canada has been hitting well below its weight.

Now is the time for action, and there is much work to be done.

While the CIPC acknowledges the positive step that has been taken by the government in introducing Bill C-11, at the time of writing this paper that Bill had not been passed. More must be done to protect IPR in Canada.

1 <http://dictionary.reference.com/browse/counterfeit?s=t>

2 TRIPS Article 51, Footnote 14

3 Ibid.

4 Report of the Standing Committee on Industry, Science and Technology *Counterfeiting and Piracy are Theft*, June 2007. Available at: <http://www.parl.gc.ca/HousePublications/Publication.aspx?DocId=3060548&File=5&Language=E&Mode=1>

5 Minister Fast DFAIT Press Release September 30, 2011 http://www.international.gc.ca/media_commerce/comm/news-communiques/2011/280.aspx?lang=eng&view=d

This paper aims to build a common understanding of the challenges created by the counterfeiting problem to ensure that positive action can be taken as we move forward. To do so, we begin by exploring the extent of the counterfeiting problem, the risks that it creates and the impact that it has on many aspects of the Canadian economy.

Our international trading partners have developed strategies for effective and coordinated responses to counterfeiting which can inform Canada's response. From the requirements of the TRIPS agreement to new specifications under ACTA, it is essential that the most current international views are considered when determining national best practices.

When we look at these best practices, we see that effective regimes are those which have taken all or a combination of the following actions:

- 1) Implementing a system of regulation that encourages and facilitates properly empowered customs officials to work with rights holders to effectively police channels of commerce;
- 2) Implementing processes and procedures to address the growing challenge of small shipments of counterfeit goods being ordered in online markets and delivered through the post, including via mail and courier;
- 3) Developing specialized enforcement arms in the police, prosecutors' offices and judiciary so that cases of counterfeit goods can be addressed with the requisite level of knowledge and expertise;
- 4) Providing rights holders sufficient legal tools to provide adequate legal remedies against professional counterfeiters; and
- 5) Developing tools that foster open communication between stakeholders and encourage participation of intermediaries in online commerce, including payment processors and ad brokers.

Effective regimes empower rights holders to work with enforcement officials nationally and internationally to protect legitimate channels of commerce, keep dangerous products off the market and prevent fraud on consumers.

In comparison, it becomes apparent that Canada does not have sufficient legal remedies and tools to effectively address the counterfeiting problem. Not only do rights holders have insufficient civil remedies but border officials do not have *ex officio* powers, criminal remedies are lacking and there are no effective tools to deal with counterfeit products in the online environment. Accordingly, we have devised a number of recommendations that must be implemented in order for Canada to have a world-class regime for the protection of IPR and a system which takes reasonable measures to protect the health and safety of its citizens from the harm of counterfeit goods.

EXTENT OF THE COUNTERFEITING PROBLEM

From cosmetics, shampoo, batteries and consumer electronics to luxury goods, determined shoppers could stock their homes with nothing but counterfeit products. Counterfeiting has become so prolific that virtually no product is immune from the associated risk, and many consumers are not even aware that they are buying counterfeit goods.⁶

For many years Canada and its international partners have been developing strategies to deal with counterfeiting in the physical world. How to protect content and how to enforce IPR online are questions that are still being answered. The Internet has created a multitude of new opportunities for all sectors of society. Commerce has become digitized, giving consumers and businesses of all sizes opportunities to connect like never before. It also has brought about an increase in fraudulent practices; vendors and consumers are provided anonymity by the Internet and no significant penalties exist in Canada for those who trade in counterfeit product online.

Measuring the Problem

Counterfeiting is not a problem that impacts only luxury products or that is limited to large markets. The range of products that have been counterfeited is shocking and consumer goods, where counterfeits can pose significant health and safety risks, are increasingly becoming part of this picture. Internationally, customs officials intercept all kinds of consumer goods: in 2010 the European Commission's Taxation and Customs Union (TAXUD) reported that 14.5% of all counterfeit goods detained in the EU were consumer products for

daily use that could be potentially dangerous to health and safety. These goods included foods and beverages, medicines, electrical goods and toys.⁷

Counterfeit goods can be found in all markets. The Counterfeit Intelligence Bureau reported seizures of 50,000 cartons of fake cigarettes in Vancouver in 2010.⁸ The RCMP, working with the Canadian Border Services Agency (CBSA), seized an estimated \$25 million in counterfeit goods destined for markets in the Greater Toronto Area in the fall of 2011.⁹ Though these are incidents in large cities, the challenge of counterfeiting is compounded by the increasing number of small shipments that enter the Canadian and international markets through the post, including courier and mail. These can reach consumers from Gambo, Newfoundland to Chilliwack, British Columbia and are often acquired by consumers who believe that they are buying the legitimate product. David Aguilar, the acting commissioner of Customs and Border Protection in the United States noted, "Although these websites may have low prices, what they do not tell consumers is the true cost to our nation and consumers including lost jobs, stolen business profits, threats to our national security, and a serious risk of injury to consumers."¹⁰ China continues to be a major source of counterfeit products, with 85% of all articles seized in the European Union in 2010 sourced there.¹¹ As the online marketplace increases, counterfeiters around the world are able to reach a larger global market and are able to avoid conventional means of detection. In 2010, more than 103 million products were detained at the European Union's external borders, and online sales caused

6 The Anti-Counterfeiting Group *The Dangers of Fakes* available at www.a-cg.org

7 European Commission - Taxation and Customs Union, *Report on EU customs enforcement of intellectual property rights: Results at the EU border, 2010*, p.2. Available at: http://ec.europa.eu/taxation_customs/resources/documents/customs/customs_controls/counterfeit_piracy/statistics/statistics_2010.pdf http://ec.europa.eu/taxation_customs/resources/documents/customs/customs_controls/counterfeit_piracy/statistics/statistics_2010.pdf

8 <http://www.icc-ccs.org/news?start=85>

9 RCMP Press Release, Containers of Counterfeit Products Seized, October 28, 2011. Available at: <http://www.newswire.ca/en/story/867425/containers-of-counterfeit-products-seized>

10 Consumer and Border Protection and Immigration and Customs Enforcement Press Release: Report on 2011 Counterfeit Seizures, January 9, 2012. Available at: www.cbp.gov/xp/cgov/newsroom/news_releases/national01092012.xml

11 Results at the EU Border 2010 a p. 2

a “spectacular increase” in detentions from postal traffic where 60% of the goods seized were counterfeit medicines.¹²

Though statistics on seizures by rights holders and customs officials can be impressive, these statistics are only a small part of the story as they only relate to the counterfeit goods that are identified and intercepted. The Joint Research Centre on Transnational Crime effectively articulated this statistical inadequacy when it stated: “The illicit nature of trafficking in counterfeit goods makes it very difficult to provide official figures like those available for the legal markets. Moreover, the *dark number*, i.e. the number of cases not reported to police, also affects the reliability of statistics on counterfeiting. As a result, the figures provided by police forces, in terms of reported cases of counterfeiting, may underestimate the magnitude of the phenomenon. Furthermore, statistics issued by customs authorities on seizures of counterfeit goods may offer only a *proxy* for, and a partial representation of, the counterfeit industry because they refer only to seized articles, not to the entire amount of counterfeit products on the market.”¹³ Even when counterfeit goods are detected they may not be intercepted or investigated. According to former RCMP Superintendent Ken Hansen, former co-chair of INTERPOL’s Intellectual Property Crime Action Group, the RCMP can only investigate 25% of the goods the CBSA’s Toronto office flags as being fake.¹⁴ RCMP intervention is essential in order for counterfeit goods to be seized by authorities in Canada. The RCMP has itself acknowledged that the number of cases it has investigated is believed to be a fraction of the true IP crime situation in Canada.¹⁵

Traffickers are also improving techniques to avoid detection. Many traffickers of counterfeit goods will adopt techniques known as “breaking bulk,” in which goods will be rerouted through many territories (often free trade zones or domestic provinces) in their journey from point of production to point of distribution.¹⁶ This practice allows traffickers to avoid revealing the true source of the goods and lessen the suspicion of customs.¹⁷ Traffickers also mix authentic and fake goods in the same shipments or hide fake goods within a secret compartment of a container of legitimate goods, all to avoid detection and seizure.¹⁸ Counterfeit products are also increasingly sent unbranded, with labels sent in another shipment only to be placed on the goods at their destination.¹⁹ Counterfeiters are sophisticated criminals who are making significant returns on their activities, to the detriment of legitimate businesses and consumers.

Most of the counterfeit goods that are detected and intercepted in Canada and elsewhere tend to be goods that are shipped in large quantities. While it may be relatively easy to detect a container load of counterfeit toys or cigarettes, it is virtually impossible to detect a package coming through the postal service that contains 1,000 counterfeit OxyContin pills. Counterfeiters in the online market do not ship in bulk on cargo ships, but ship in small quantities to individual consumers around the globe. Those at the forefront of the battle against counterfeiting are beginning to develop strategies to intercept small shipments delivered through the postal service. However, this is an intensive process that requires dedicated resources, the development of expert knowledge and a level of interagency cooperation that has not yet been supported by the Canadian government.

12 ACTA in the EU, A practical Analysis, February, 2012. BASCAP/INTA

13 *Anti-Brand Counterfeiting in the EU: Report on International and National Existing Standards* December, 2010. Available at: http://www.gacg.org/Content/Upload/Documents/Transcrime_Report%20Best%20Practices_Project%20FAKES.pdf

14 Marlow, Iain, *Dangerous fake goods crossing border*, The Toronto Star, July 2, 2007. Available at: <http://www.thestar.com/printarticle/231583>

15 RCMP Project Strider, August 2010 “A National Intellectual Property Crime Threat Assessment” p. 3. Available at: http://publications.gc.ca/collections/collection_2011/grc-rcmp/PS64-79-2010-eng.pdf

16 *Journal of Intellectual Property Law and Practice*, 2010, Vol 5, No 5 p. 328.

17 2011 USTR Special 301 Report p. 10

18 European Commission, Unknown Label

19 2011 USTR Special 301 Report, p. 10.

In 2009, the OECD completed a comprehensive paper wherein it tried to quantify the economic impact of counterfeit crime on a global scale. It accounted for the fact that seizures do not reflect the full scope of the problem and for the fact that each counterfeit product does not represent a lost sale of the authentic good. According to this study, the international trade in counterfeit and pirated goods was valued at USD 250 billion in 2007,²⁰ which, according to the International Monetary Fund, is an amount greater than the individual GDP of 148 countries.²¹ This is simply a calculation of the value of tangible counterfeit goods traded on the global market. It does not take into account the economic impact of lost tax revenues in government coffers, the impact of intangible goods (e.g. digital copies), the cost of rebuilding a house when a counterfeit electrical cord causes a fire or the cost of human life taken by counterfeit medications.

The lack of clear and credible data makes it difficult to drive policy makers to action and can compound the problem. Both the American and UK governments have acknowledged that there is a lack of clear and credible data on the scope and scale of IP crime. The *UK IP Crime Strategy 2011* stated “the lack of clear and credible data is a problem which needs to be urgently addressed. The lack of a clear picture on the scope and scale of IP crime and its impact poses a real problem for policy makers and for operations decision makers who must decide how to prioritise IP crime alongside other issues.”²²

The most reliable data on the impact of counterfeiting and the prevalence of counterfeit goods is often collected by governments themselves. The challenge of measuring the effect of counterfeiting in Canada is not only impacted by the fact that it is impossible to paint a picture that captures the full scale of counterfeiting; the Canadian system has no tools to track and report on the instances of counterfeiting that are actually detected in the country. According to European Commission regulation 1891/2004, customs authorities in all EU member states are obliged to report statistics on customs seizures. This data should include the description and quantity of goods detained, their place of origin, the means of transport used and the type of IPR infringed.²³ To the contrary, the CBSA does not have a mandate for reporting on IP crime at the border, and even if this information was maintained and was accurate, the statistics would not account for the impact of shipments that went undetected including small shipments that are sent directly to the consumer. While recognizing that IP crime is difficult to detect, the RCMP in *Project STRIDER – a National Intellectual Property Crime Threat Assessment, 2005 to 2008* estimated reported annual seizures at \$63.6 million.²⁴

20 OECD, *Magnitude of Counterfeiting and Piracy of Tangible Products: An Update*. November, 2009. Available at: <http://www.oecd.org/dataoecd/57/27/44088872.pdf>

21 Nominal GDP list of countries for the year 2010. <http://www.imf.org/external/pubs/ft/weo/2011/02/weodata/index.aspx>

22 “Prevention and Cure: The UK IP Crime Strategy 2011”, UK Intellectual Property Office, 2011. Available at: <http://www.ipo.gov.uk/ip-crimestrategy2011.pdf>

23 Council Regulation (EC) No. 1891/2004

24 Royal Canadian Mounted Police, “Project STRIDER- a National Intellectual Property Crime Threat Assessment, 2005 to 2008”, Ottawa, Communications Canada, 2010. Available at <http://publications.gc.ca/collections/2011/grc-rcmp/PS64-79-2010-eng.pdf>



Identifying Counterfeit Products

Counterfeit goods can be very convincing. A good dose of common sense and a healthy skepticism towards deals that appear too good to be true are often necessary to avoid becoming the victim of counterfeit products. In some cases even an educated consumer can be deceived by a good counterfeiter.

CASE STUDY: PROCTOR AND GAMBLE

For years, Proctor & Gamble (P&G) has been fighting against illicit counterfeit goods that could harm the health and safety of its consumers and compromise its brand. In its product lines, counterfeiters have created convincing knock-offs of toothpaste, batteries, shampoo, razor blades, household cleaners and many other products. The scale of the counterfeiting problem hit home for P&G when at one point the counterfeit version of a shampoo was so close to the authentic product, that it was difficult for P&G's own product sales team to identify the counterfeit.²⁵ With an increased awareness of the impact counterfeiting was having on its brands, P&G introduced a four-step brand protection framework. First, it redesigned packaging making its products harder to copy and fakes easier to detect. Then it increased its monitoring in global markets, improving its intelligence about the placement and source of counterfeit products. With this knowledge, P&G implemented the third step of its program by securing its supply chain with its retail vendors. This step allowed P&G to ensure that its distributors, and therefore consumers, were not deceived into buying fake products. With its supply chain secure and measures taken to ensure counterfeit products did not reach its consumers, P&G moved to the final phase of its framework, enforcement against the producers of the counterfeit products.²⁶

Some may think that P&G goes to extremes to identify counterfeit products and remove them from the market, but with its customer care line receiving more than 50 million calls per year related to counterfeit product,²⁷ its actions are necessary to ensure that potentially harmful counterfeits are removed from the market.

25 Presentation by Erin O'Toole, former in-house counsel to Proctor & Gamble Canada, Toronto Intellectual Property Group, September 27, 2011.

26 Miroslav Marinkovic, Proctor & Gamble Presentation, IPR Conference, Moscow, Oct 6-8, 2010, p. 13 (P&G Presentation)

27 P&G Presentation p 16

RISKS POSED BY COUNTERFEIT PRODUCT AND THEIR ILLICIT DISTRIBUTION

Counterfeit Products Are a Threat to Public Safety

Counterfeiters do not invest in research and development or care about complying with safety regulations... They are concerned only to make their counterfeits look enough like the real thing to make them worth selling, either to people who are innocently after a bargain, or to consumers who deliberately choose to buy fake goods.

- The Anti-Counterfeiting Group – The Dangers of Fakes

The proliferation of counterfeit goods in the online marketplace and in the conventional supply chain means that no one is immune to the hazard they pose. Counterfeit batteries have exploded in the desks of police who have stored them, and the acid leaking from counterfeit batteries has caused burns to at least eight Canadian children.²⁸ In 2007, a woman in British Columbia died after ingesting counterfeit medicine containing uranium and lead which she purchased online.²⁹ When harm occurs to an individual as a result of the use of a counterfeit product, there is no way to hold the manufacturer of the counterfeit product to account.

Counterfeit cigarettes are regularly found to be more harmful than their legitimate counterparts, with one study finding counterfeit cigarettes that contained an average of 63% more tar and emitted 30% more carbon dioxide when smoked.³⁰ Reports have also found that due to lax production controls counterfeit cigarettes can be laced with “a myriad of unwelcome ingredients, from sawdust and rat droppings to camel dung and excessive levels of toxic chemicals.”³¹

The consumer risks from counterfeits do not stop with products that would be easy to sell to unsuspecting consumers. In November of 2011, reports emerged about counterfeit parts in American military equipment sophisticated enough to deceive military purchasers and the technicians who installed them in military aircraft. Some of these parts could have compromised diagnostic equipment, including displays of engine status and fuel usage, on aircraft that were deployed to Afghanistan.³²

Counterfeit Products Damage Legitimate Business

Brand owners frequently face an uphill battle when trying to protect their consumers from the dangers of counterfeit products. Counterfeits are often cheaper than legitimate goods and are of lesser quality, damaging the brand of the legitimate goods and creating illegitimate competition in the marketplace. The presence of counterfeits in the market requires companies to undertake costly education campaigns, investigations and prosecutions. Consumer education cannot end with encouragement to buy from a legitimate retailer; advice must be given on who those legitimate retailers are and how to identify counterfeit goods. Yet, for many retailers, even their best efforts may fall short; counterfeit products enter the market and when a consumer is harmed by a counterfeit battery or gets a chemical burn from counterfeit perfume, it is the legitimate brand name that is associated with the incident and left with the negative public relations consequences.

28 Dangerous Fake Goods Crossing the Border, July 2, 2007. Available at: <http://www.thestar.com/news/article/231583--dangerous-fake-goods-crossing-border>

29 National Review of Counterfeit Medicine, *BC Woman Killed by Fake Drugs Bought Online* Vol 4 No 13 http://www.nationalreviewofmedicine.com/issue/2007/07_30/4_policy_politics_13.html

30 Middlesbrough, UK “Warning Over Hidden Dangers of Fake Tobacco” Available at: <http://www.middlesbrough.gov.uk/ccm/content/news/1middlesbrough-council-press-releases/2011/warning-over-hidden-dangers-of-fake-tobacco.enjsessionid=68EB4796358DE1C47148F32BD55587DC>

31 The Independent “Counterfeit Cigarettes: Smoking Out the Bandits” October 3, 2011. Available at: <http://www.independent.co.uk/news/uk/crime/counterfeit-cigarettes-smoking-out-the-bandits-2364611.html>

32 Tony Capaccio “China Counterfeit parts in US Military Boeing, LC Aircraft” Bloomberg Business Week, November 18, 2011. Available at: <http://www.businessweek.com/news/2011-11-18/china-counterfeit-parts-in-u-s-military-boeing-l3-aircraft.html>

Legitimate businesses dedicate time and resources to the fight against counterfeiting, educating their consumers, working with regulatory authorities, conducting their own investigations and engaging in costly litigation. In the absence of counterfeiting and piracy, the money spent to fight this epidemic could

be spent on research and development, infrastructure investment or additional staffing. It is crucial that we build a system of IPR protection in Canada that allows companies like Canada Goose to rely on law enforcement and the efficacy of the judicial system to protect its brand.

CASE STUDY: CANADA GOOSE

Canada Goose is a proud Canadian company which has experienced first-hand the negative impacts of counterfeiting. While it has a comprehensive brand protection program, its ability to protect its brand in Canada is limited by weak laws and a lack of government resources dedicated to the fight.

Canada Goose is worried about the proliferation of counterfeit jackets, largely because they know these goods are a health risk and are dangerous to the consumer. Kevin Spreekmeester, vice president of global marketing, says that, unlike some who may knowingly purchase counterfeit products, most of the consumers buying counterfeit Canada Goose jackets online believe they are buying the real thing. Websites selling the fake product provide genuine shopping experiences and charge high prices. Many online customers will simply click on one of the first sites their Internet query returns, believing the online retailer to be a legitimate vendor. The product they receive is utterly substandard; the down in these jackets contain unhealthy elements, including bacteria, mildew and

chicken parts. Fake jackets have been trimmed with a variety of furs including German shepherd and rabbit, which do not protect the face from the cold. The Canada Goose jackets are built to protect the wearer from the harshest extremes of the Canadian north, something counterfeits are unable to do.

Canada Goose has taken a proactive approach to the problem using a combination of consumer education, legal enforcement and markers of authenticity physically present on the jackets. On its website, the company provides information for consumers about authorized retailers, the problems associated with fake jackets and the identity of rogue websites that are known to sell counterfeit product. The company has divided its enforcement practices between strategies for business-to-business (B2B) and business-to-consumer (B2C) platforms, both of which have been successful. The company works with private firms in North America and Europe to seize counterfeit versions of its product at borders and engage in civil enforcement measures against rogue websites.

Counterfeiting Means Lost Revenue for the Government

Illegitimate businesses that traffic in counterfeit goods frequently do not comply with tax obligations, resulting in lost revenues for all levels of government. In April 2010, the CBSA and the RCMP in British Columbia seized a shipment containing over 50,000 cartons of counterfeit cigarettes.³³ Based on the tax rate

then in effect in British Columbia, had these cigarettes been legitimate and sold through tax-paying channels, they would have generated over \$1.8 million in tax revenue.³⁴ This is a small but concrete example of the impact that counterfeit goods have on tax revenues, and, ultimately, in this time of economic uncertainty, the level of service that governments are able to provide.

³³ CBSA Press Release, "Largest counterfeit tobacco seizure in BC History" May 5, 2010. Available At: <http://www.cbsa-asfc.gc.ca/media/prosecutions-poursuites/pac/2010-05-05-eng.html>

³⁴ Tax rate obtained from Ministry of Finance Tax Bulletin TTA 005, Revised October 2010.

According to a study by Frontier Economics, counterfeiting and piracy cost G20 governments more than €100 billion a year in lost tax revenues and place 2.5 million legitimate jobs at risk.³⁵ Another report has stated that “In total, if counterfeiting and piracy continue to grow at current trends, it could be worth up to 1.7 trillion by 2015.”³⁶ In its report *Counterfeiting and Piracy are Theft*, the Standing Committee on Industry, Science and Technology acknowledged that “tax revenue losses can no longer be assumed to be insignificant.”³⁷ Despite this acknowledgment by a unanimous government committee and its call to action, no concrete steps have been taken by the Canadian government to respond to the problem of counterfeiting and improve its revenue situation.

Revenue From Counterfeit Products Funds Organized Crime

Because these IP rights are valuable, people try to make money from them without the owner’s permission, often in ways that are best described as organized crime. This damages both the economy and society. Available data suggest a strong link between IP crime and other forms of criminal behaviour, with offenders convicted of counterfeiting and piracy also found to be engaged in illegal money-lending as well as benefits frauds and anti-social behaviour. There is also evidence of the involvement of some engaged in IP crime in drugs, human trafficking, serious fiscal and non-fiscal fraud and associated money laundering offences.

- *Prevention and Cure: The UK IP Crime Strategy 2011.*

As the penalties associated with the commission of counterfeit offences are generally low, engaging in counterfeit production and distribution is a low-risk venture for criminal enterprises. Criminal organizations are able to take advantage of pre-existing supply channels and can use the profits made from counterfeiting to fund other aspects of their criminal operations. The sophistication of professional counterfeiters cannot be underestimated.

In 2009, the Rand Corporation produced a 150-page report on the links between organized crime and counterfeiting and piracy. In addition to demonstrating how the easy money made by criminal organizations which traffic in counterfeit and pirated goods can be used to fund other criminal enterprises including human trafficking and drugs, the report called on governments to take positive action to respond to the growing role of organized crime in counterfeiting and piracy. Specifically, this report called on governments to expand the definition of organized crime “to include large-scale counterfeiting tied to other criminal activity. Laws should be enacted to grant investigators greater authority to sustain investigations, conduct surveillance and obtain search warrants.”³⁸

The RCMP has also observed links between organized crime and IPR offences. “OC [organized crime] groups use IP crime as another undertaking within their criminal activities, often combining IP crime with other illegal business ventures. Evidence shows that transnational OC groups are actively involved in IP crime, and that IP crime has been linked to money laundering, drug trafficking, firearms smuggling, as well as other types of crime.”³⁹ In November 2011, an initiative by the RCMP and the CBSA led to the arrest of eight individuals in Ontario and British Columbia.

35 Frontier Economics “Building a Digital Economy: The Importance of Saving Jobs in the EU’s Creative Industries” March 2010. Available At: <http://www.icwbo.org/bascap/index.html?id=35360>

36 ACTA in the EU: A Practical Analysis, at p. 7. BASCAP/INTA

37 Counterfeiting and Piracy are Theft: Report of the Standing Committee on Industry Science and Technology, June, 2007, p.7. Available at: http://www.parl.gc.ca/content/hoc/Committee/391/INDU/Reports/RP3060548/391_INDU_Rpt08/391_INDU_Rpt08-e.pdf

38 Treverton, Gregory F., et al., “Film Piracy, Organized Crime and Terrorism” Rand Corporation, 2009. Available at: http://www.rand.org/pubs/monographs/2009/RAND_MG742.pdf (Rand Report)

39 Project Strider, p. 11

In addition to the seizure of more than half a million cartons of counterfeit cigarettes, authorities seized over 6,000 kilograms of P2P, a key ingredient in the manufacture of methamphetamine.⁴⁰

Counterfeit products are regularly found in shipments containing other types of illegal goods. In October 2010, CBSA agents in Vancouver suspected that a shipment contained counterfeit goods, and following legal requirements in Canada, called the RCMP in to investigate. The RCMP found that the shipment did contain counterfeit shoes but that it also contained P2P.⁴¹ Given the many examples of links between counterfeiters and Canada's drug trade, any belief that counterfeiting is a victimless crime is clearly misplaced.

Canada's Lax IP Regime Sends the Wrong Message to Our International Partners

The lack of enforcement of IPR sends the wrong message to Canada's trading partners and foreign investors that Canada is a country that does not sufficiently respect IPR. Canada's trading partners have taken notice of its poor record and are eager for the government to legislate more advanced measures for enforcing IPR. In its annual *Special 301 Report*, the Office of the United States Trade Representative (USTR) has repeatedly placed Canada on its *Priority Watch List* of countries that offer the weakest protections for IPR. The USTR sees the strengthening of Canadian customs enforcement as a major requirement for the Canadian government.⁴²

The European Union has also been critical of Canada's stand on IPR enforcement, noting in the *Strategy for Enforcement of Intellectual Property Rights in Third Countries of the Directorate-General for External Trade* that Canada is a "priority country" for strengthening

cooperation on IPR. The Canadian IPR system, it notes, "features several shortcomings... the weak underlying political will – resulting in both the poor implementation of existing legislation and in its consistent failure of reform legislation being enacted – is indeed very worrying from a developed country."⁴³

Canada cannot reasonably expect to attract investment from the world's top innovators if it is perceived as offering lax protection for IPR, a key commodity in the innovation economy.



40 National Post, November 1, 2011 "Eight Arrested in Ontario and BC in Asian Smuggling Ring Bust" Available at: <http://news.nationalpost.com/2011/11/01/eight-arrested-in-ontario-and-b-c-in-asian-smuggling-ring-bust/37> Counterfeiting and Piracy are Theft: Report of the Standing Committee on Industry Science and Technology, June, 2007, p.7. Available at: http://www.parl.gc.ca/content/hoc/Committee/391/INDU/Reports/RP3060548/391_INDU_Rpt08/391_INDU_Rpt08-e.pdf

41 RCMP Combating Intellectual Property Crime, June 6, 2011

42 USTR 2012 Special 301 Report p. 25. Available at: http://www.ustr.gov/sites/default/files/2012%20Special%20301%20Report_0.pdf

43 Commission Staff Working Document, IPR Enforcement Report 2009 p.10. Available at: http://trade.ec.europa.eu/doclib/docs/2009/october/tradoc_145204.pdf

BEST PRACTICES: INTERNATIONAL TRADING PARTNER AND INDUSTRY ACTION

The role of central government is to put the right legal framework in place, both domestically and through international influence to support the agencies that are the front line of action against IP crime. This includes working to ensure that enforcement agencies have the right powers and skills they need to tackle IP crime and to deliver on processes that support better coordination and intelligence led enforcement.

- Prevention and Cure: The UK IP Crime Strategy, 2011

Around the world, developed nations have made it a priority to protect IPR and foster a business environment where the digital economy can grow. From the information and models discussed below, it becomes clear that the most efficient models are those that combine strong law enforcement and international cooperation and encourage the participation of industry and rights holders. Canada can learn from these examples and must move to implement international best practices in order to support a marketplace where IPR can be exploited to its full value.

When international trends are examined, five themes emerge:

- 1) Empowered customs officials are able to work with rights holders to effectively police channels of commerce.
- 2) Governments and law enforcement bodies are adapting their IPR enforcement techniques to address the growing challenge of small shipments of counterfeit and pirated goods ordered in online markets and delivered through postal services, including mail and courier.
- 3) Creating knowledge and expertise at a coordinated level is essential to effectively address cases of counterfeiting and piracy.

- 4) Professional counterfeiters and pirates are not deterred by ineffective civil remedies. Rights holders must be given remedial tools that have teeth.
- 5) When stakeholders, including rights holders, law enforcement and e-commerce intermediaries work together, innovative solutions to the problems of counterfeiting and piracy can be found.

These themes can be seen in international treaties, the laws of specific jurisdictions and in practices that have been adopted by police forces and responsible intermediaries.

Empowered Border Officials

The World Customs Organization (WCO) has been an incredibly important actor in developing policy for border enforcement of IPR. It has long advocated “model legislation” for countries and reports on best practices. According to the WCO model legislation on IP protection, “Customs’ powers to act *ex officio* are a key feature of effective border enforcement regimes. In the vast majority of cases, Customs officers are the only ones to know when and which allegedly infringing goods are transported. Therefore, unless Customs are empowered and obliged to act on their own to stop suspected shipments at the borders, the border measures will remain ineffective. TRIPs Agreement Article 58 introduces the possibility to give Customs *ex officio* powers; as such powers are an essential feature of effective border measures it is recommended that WCO Members States include a provision to that effect in the national laws.”⁴⁴

The need for border officials to have *ex officio* power does not only exist as model legislation but has also been adopted by many of Canada’s major trading partners. EU customs officials have the power to

⁴⁴ World Customs Organization Model Legislation <http://www.aseansec.org/20534-Annex3.pdf>

detain and seize goods on an *ex officio* basis.⁴⁵ In the event of an *ex officio* seizure, the EU customs officials must notify the rights holder and have an application for action submitted within three working days.⁴⁶ However, because the EU has a comprehensive rights registration process that facilitates applications to customs officials, less than 5% of seizures arise from *ex officio* action.⁴⁷

Some of Canada's trading partners have taken additional steps to ensure customs officials have reliable information about counterfeit products. They have developed registry systems that allow rights holders to provide identifying information about legitimate trade-marked product which is then available to customs officials. This aids officials in easily identifying counterfeit product and preventing the import, export or transshipment of such product.

For EU customs officers to be most efficient, rights holders must furnish them with detailed information about the products. The European Commission (EC) strongly encourages cooperation with rights holders, as this facilitates the risk assessment capacities of customs. If rights holders suspect that counterfeit copies of their goods may transit through customs, they are encouraged to fill out two applications for action, one national and one community wide, which will provide them with customs detention orders. These should include information about the goods, the rights involved, the type of fraud suspected, as well as information on the authentic goods. This process has been very successful, with authorities reporting that more than 18,000 applications for action were

submitted by rights holders in 2010,⁴⁸ even though the rights holder agrees to cover all of the cost associated with the process.⁴⁹ In order to ease the administration of this process, customs authorities have published a manual for rights holders on how to lodge community and/or national applications for action.⁵⁰

The EC has also initiated COPIS, a new online database for both national and community applications for action, set to begin in the second quarter of 2012. This will make access to the application system easier for rights holders and customs officials. Developments in the EU include the proposal of new legislation that would replace EC 1382/2003, extending IPR enforcement and streamlining the process for rights holders.⁵¹

Similarly, in the United States, the Customs and Border Patrol (CBP) works very closely with industry, on which it is dependent for information on possible instances of counterfeiting. A recordation application service exists for rights holders, which then provides agents with specific information on goods, including markers of authenticity of the genuine articles and trends in counterfeiting of the product. In 2011 the CBP approved 2,087 of these applications,⁵² which are paid for by rights holders and last for one year. The CBP has made the system easier for rights holders use with an "E-Recordation" system that allows for speedier information-sharing between parties.⁵³ This information is stored in the CBP's Intellectual Property Rights Search (IPRS) database, to which agents across the country have access.⁵⁴

45 COUNCIL REGULATION (EC) No 1383/2003 of 22 July 2003 concerning customs action against goods suspected of infringing certain intellectual property rights and the measures to be taken against goods found to have infringed such rights Article 4. Available at: <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2003:196:0007:0014:EN:PDF>

46 Results at the Border 2010 at p. 10.

47 Ibid

48 Results at the Border, p. 9

49 EC Regulation 1383/2003 Article 6

50 Results at the Border, p. 9

51 Ibid., p. 2

52 2011 US Intellectual Property Enforcement Coordinator Annual Report on Intellectual Property Enforcement, p. 73. Available at: www.whitehouse.gov/sites/default/files/omb/IPEC/ipec_annual_2011_report.pdf

53 US Customs and Border Protection Enforcement of Intellectual Property Rights, October 2009 p7. Available at: http://www.cbp.gov/linkhandler/cgov/trade/legal/informed_compliance_pubs/enforce_ipr.ctt/enforce_ipr.pdf

54 Ibid, p. 15

The development of these kinds of tools, which facilitate coordinated efforts within departments and outreach to stakeholders, are precisely the kind of initiatives that border officials should be empowered to undertake.

More recently, the WCO has developed the Interface Public-Members (IPM) Database, which provides customs agents with “real-time” information on products particularly at risk of being counterfeited, along with information on common transit routes, markers of authenticity and photos of genuine goods. The WCO encourages rights holders to register their goods in this database. One of the major advantages of the IPM program is that it is free of charge and accessible in the various languages of the WCO member states. As of February 2011, 65 customs administrations have enrolled, including Canada’s.⁵⁵

Adapting to Small Shipments

Mechanisms to address online infringement and the shipment of small quantities of counterfeit goods continues to be a problem for customs officials. Though it is known that air freight (approx. 40%) and postal service (approx. 24%) are the main means for transport of counterfeit goods, in 2008 nearly 80% of articles detained at EU borders were transported by sea – the most convenient means of transporting large quantities of goods.⁵⁶ Despite this, a 90% increase in the number of customs cases in the EU between 2009 and 2010 is attributed to small shipments through the postal service, where over 60% of items detained were counterfeit medicines.⁵⁷ This increase in counterfeit product being delivered in small shipments is also noted by American authorities. In 2011, customs seizures decreased in value due to a high volume of low-value packages intercepted, including a number of mail and courier packages. The increase in number of small shipments detained led to 24% more seizures in



2011 than 2010.⁵⁸ Customs officials have acknowledged that “Over the past five years, the trade in counterfeit and pirated goods has shown a marked shift toward using international mail and express courier services to transport this illegal merchandise,” with an 84% increase in the number of seizures at mail and courier facilities since 2007.⁵⁹

Clearly this mechanism of delivery of counterfeit product ordered online is a growing problem which will require continued attention. EU customs officials experienced an increase in the number of cases from 43,572 in 2009 to 79,112 in 2010 and indicated this increase had a link to increased sales on the Internet.⁶⁰ This trend has not escaped the notice of international mail handlers; the Universal Postal Union (UPU) passed a resolution urging its member countries to encourage their designated operators to “take all reasonable practical measures to support customs in their role in identifying counterfeit and pirated items in the postal network.”⁶¹

55 www.wco.org

56 Joint Research Centre on Transnational Crime, p. 11

57 Report on EU Customs, p. 2

58 Intellectual Property Rights: Fiscal Year 2011 Seizure Statistics, US Customs and Border Protection and US Immigration and Customs Enforcement, Executive Summary.

59 Ibid., p 15

60 Results at the Border 2010, at p. 11

61 Universal Postal Union, Work Done By Customs Group to Implement Resolution C 37/2008. Available at: www.upu.int/document/2011/an/cep_c_2_gd-2/d008b.pdf

Packages are not generally inspected unless they are deemed suspicious, and a greater number of packages contain small numbers of goods, but our international partners have identified ways to simplify the process. These steps include simplification of national customs programs to allow a suspected infringer to abandon the goods on receiving notice that they are suspected counterfeits without the rights holder having to get involved.⁶² Customs officials in various countries are also working with international partners to capture mail shipments of counterfeit goods as they cross the border. Through programs like Operation Safe Summer, the CBP has undertaken significant international outreach. In September 2010, American agencies worked with Mexican authorities to target dangerous goods being shipped by mail and express courier. These products included automobile airbags, cell phones and rifle sights.⁶³

The EU is currently implementing the *EU Customs Action Plan to Combat IPR Infringement 2009-2012*, which deals in large part with the phenomena of small consignments. This plan suggests "All member States should examine carefully the phenomenon of sales over the Internet and share best practices. Seminars and working groups will be organized in order to conclude memoranda of understanding with Internet platforms and financial institutions involved in online payments, to exchange information, and to share practices on monitoring and identifying professional sellers of counterfeits."⁶⁴ Progress in this area is essential in order to make inroads in combatting infringement taking place over the Internet.

The CBP uses a number of innovative techniques to prevent counterfeit goods crossing the borders, most notably a computerized risk model which provides assessments of imports based on specific

key data.⁶⁵ The CBP also undertakes post-entry audits of companies it considers at high risk of importing counterfeit and pirated goods.⁶⁶ A program called "E-Allegations" is also in place which allows citizens to report trade violations of IPR online.⁶⁷

Creating Expert Knowledge

The National Intellectual Property Rights Coordination Center is one of the U.S. government's key weapons in the fight against criminal counterfeiting and piracy. The expertise of its 19 member agencies is used to share information and develop initiatives, coordinate enforcement actions, and conduct investigations related to intellectual property theft.

- Fiscal Year 2011 Seizure Statistics

Coordinated action ensures targeted response, prevents duplication of effort, enables the creation of expert knowledge and ultimately results in cost savings related to the enforcement of IPR. Our American and European counterparts have been diligent in creating expert bodies to face the challenges presented by counterfeiting.

In the United States, the CBP is the body responsible for customs control, working with many other partners in investigating suspect goods. When investigations involve possible IPR infringement, the CBP works with Immigration and Customs Enforcement (ICE) and partners with the IPR Center.⁶⁸ The European Union has undertaken the creation of an experts' group concerning general policy measures relating to the fight against counterfeiting on the Internet and the exchange of best practices.⁶⁹

62 *Stopping Counterfeits: New UK Rules Introduced*. Available at: http://www.harbottle.com/hnl/pages/article_view_hnl/4968.php

63 2010 US IPEC Report p. 42

64 Draft Council Resolution on EU Customs Action Plan to Combat IPR Infringement for the Years 2009-2012, at p.7. Available at: <http://register.consilium.europa.eu/pdf/en/09/st05/st05947-re01.en09.pdf>

65 Report to the President and Congress on Intellectual Property, at p.88. Available at: http://counterfeiting.unicri.it/docs/US%20NIPLECC_Report_and_Appendices_Final.pdf

66 *Ibid.* p. 89

67 Customs and Border Protection *Enforcement of Intellectual Property Rights*, October, 2009, at p.5. Available at: http://www.cbp.gov/linkhandler/cgov/trade/priority_trade/ipr/legal/ipr_guide.ct/ipr_guide.pdf

68 www.cbp.gov

69 Results at the border 2010 p. 6.

Despite a recommendation in *A Time for Change* which called on the Canadian government to establish a specialized IP crime task force to guide, coordinate and lead anti-counterfeiting and anti-piracy enforcement efforts in Canada, no task force has been created. The success that can be met by creating such a specialized task force is evidenced by the success in the United States under the guidance U.S. Intellectual Property Enforcement Coordinator Victoria Espinel. In her *2011 Annual Report on IP Enforcement*, she reported that Department of Justice prosecutions resulted in higher penalties as they were able to target more significant cases, with a 71% increase in convictions over fiscal year 2010; Department of Homeland Security increased seizures of counterfeit pharmaceuticals by almost 200% and seizures of fake consumer safety and critical technology merchandise by 44%; major credit card companies and payment processors reached voluntary agreements to reduce the payments to companies selling counterfeit and pirated goods online; government agencies have increased efforts to de-conflict cases and ensure investigative resources are not duplicated or wasted – the number of de-conflicted cases rose to 2,877 in 2011, a 429% increase over 2010; and the concerted effort ensured a 5% increase in project spending was properly allocated resulting in a 33% increase in seizures, arrests and investigations of counterfeiting and piracy over 2010.⁷⁰

Expert knowledge cannot be created without an investment by rights holders. The *UK IP Crime Strategy in 2011* stated “There must be a sufficient focus on operational activity that enforcement agencies understand the importance of tackling IP crime and prioritize it appropriately. That means not just having a sound evidence base but also presenting the evidence in a way that it can best inform enforcement bodies’ difficult decisions on prioritization and levels of response, where there are other competing

(or maybe linked) priorities such as firearms, illegal immigration or drugs.”⁷¹ Rights holders are well positioned to provide evidence to enforcement bodies and support them in necessary forensic analysis. The link between IP crimes and other types of offences is well documented and this information should guide enforcement officials in dedicating the necessary resources to the fight against counterfeiting and piracy.

A System of Effective Remedies

Rights holders and government officials have long acknowledged that remedies have to be sufficient to deter potential offenders.⁷² Regimes that offer only nominal fines and minimal sentencing do not provide a sufficient deterrent for career IP criminals.

Our international partners have implemented innovative remedies in order to curb the impacts of counterfeiting and piracy. In other jurisdictions, courts are able to order an intermediary to block access to a site that facilitates infringement⁷³ and have taken action to seize the domain names of sites engaged in counterfeiting online. In *Operation In Our Sites*, the National IPR Coordination Center instituted enforcement actions that involve U.S. federal law enforcement investigation cases and developing evidence to obtain seizure warrants from federal judges. Pursuant to these orders the websites are seized and redirected to display a seizure notice.⁷⁴ Court oversight in these instances ensures that IP rights are balanced against other legal rights and interests. As of April 2012, *Operation In Our Sites* has led to the seizure of 758 domain names accused of selling counterfeit goods, and officials have used legislation to seize funds from bank accounts associated with the operation of these illicit enterprises.⁷⁵

70 2011 United States Intellectual Property Enforcement Coordinator Annual Report on Intellectual Property Enforcement. Available at: www.whitehouse.gov/sites/default/files/omb/IPEC/ipec_annual_2011_report.pdf

71 Prevention and Cure: the UK IP Crime Strategy 2011, p. 8. Available at: www.ipa.gov.uk/ipcrimestrategy2011.pdf

72 Safety Committee Report Recommendation 6.

73 European Copyright Directive Article 8.3

74 National IPR Coordination Center Fact Sheet “Operation In Our Sites”. Available at <http://www.iprcenter.gov/reports/fact-sheets/operation-in-our-sites/view>

75 Grant Gross, “ICE, DOJ Seize More Domain Names of Sites Accused of Selling Counterfeits” April 10, 2012. Available at: www.pcworld.com/printable/article/id.253522/printable.html

The standards for remedies for infringement of IPR are provided in international treaties. The TRIPS agreement provides that ratifying countries “shall provide for criminal procedures and penalties to be applied at least in cases of wilful trade-mark counterfeiting of copyright piracy on a commercial scale.”⁷⁶ In order to clarify the application of this obligation, the signatories to the ACTA have indicated that commercial scale activities include those “carried out as commercial activities for direct or indirect economic or commercial advantage.”⁷⁷ The ACTA also makes clear that the civil and criminal remedies that are available in respect of tangible IPR should also be available in the “digital environment” and for infringement which takes place “over digital networks.”⁷⁸ This essentially means that a criminal organization that commits an online infringement should be treated the same way as a group that commits an infringement across borders.⁷⁹

The necessity of criminal remedies applying to online infringements has been demonstrated in the Megaupload case commenced by the U.S. Justice Department. In this case, the Justice Department has charged two corporations and their owners/operators with racketeering, conspiracy, conspiracy to commit copyright infringement, conspiracy to commit money laundering and criminal copyright infringement. The actions, which are the substance of the case, took place in the online environment.⁸⁰ The Justice Department has alleged that Megaupload generated over 175 million USD in profits and caused over a half billion USD in harm to copyright owners.⁸¹ Use of proceeds of crime legislation has empowered the Justice Department to seize and freeze many of the assets of the corporations and the individual defendants during the proceeding.

Additionally, contributory liability systems have been used in the United States to go after key suppliers of materials who actively induce or aid in the distribution of counterfeit goods. The Supreme Court in the United States has held:

[if a person] continues to supply its product to one whom it knows or has reason to know is engaging in trade-mark infringement, the manufacturer or distributor is contributorily responsible for any harm done as a result of the deceit.⁸²

International regimes that allow action involving intermediaries have also provided innovative solutions for rights holders. Under these regimes intermediaries are not liable for infringement; rather they are subject to injunctions, or blocking orders, that prevent consumers from accessing sites that offer infringing content. These provisions have been used in the EU to block access to sites like *The Pirate Bay*, undermining the illicit service’s access to its customers. Injunction remedies involving third parties have now been recognized as an international standard. The ACTA calls on signatories to provide civil remedies that enable a court to order a third-party to the proceeding “to prevent goods that involve the infringement of an intellectual property right from entering into the channels of commerce.”⁸³

Both legislative and non-legislative projects view the ISPs as crucial players for their ability to block websites from the users or simply not “resolve” or complete the search query. In some jurisdictions, ISPs must take action in order to prevent access to infringing copyright material in order to avoid secondary liability for infringement.⁸⁴ Though such regimes do not extend to action respecting sites offering trade-mark infringing

76 TRIPS Agreement, Article 61.

77 ACTA, Article 23(1)

78 ACTA, Article 27(1) and (2)

79 ACTA in the European Union – A Practical Analysis, February 2012 BASCAP/INTA.

80 Justice Department Press Release, *Justice Department Charges Leaders of Mega Upload with Widespread Online Copyright Infringement*, January 19, 2012. Available at: www.stopfraud.gov/opa/pr/2012/january/12-crm-074.html

81 Ibid.

82 *Inwood Laboratories, Inc. v. Ives Laboratories, Inc.* (1982) 456 U.S. 844 at 854

83 ACTA, Article 8.1

wares, a principled approach to the protection of IPR online indicates that such positive action by ISPs could be an effective tool for addressing online counterfeiting.

The existence of remedies that include blocking orders, domain seizure and contributory liability are useful tools to encourage the cooperation of intermediaries who do not wish to be involved in the illicit activity. A unanimous parliamentary committee has recommended that the government of Canada “strengthen civil remedies for counterfeiting.”⁸⁵

Despite the need for strong civil and criminal remedies to effectively deter professional criminals, there are also calls for some flexibility in the system to ensure appropriate remedies and mitigate the costs of enforcement. Best practices for the enforcement of IPR have to be targeted in their approach and provide space for relief for those who are unwittingly engaged in infringing activities. Many systems provide relief for infringing importers who disclose the infringement and surrender the goods. This procedure is also contemplated in the new EU regulations, which has a process for the destruction of goods in small consignments without the involvement of rights holders.⁸⁶

Further, enforcement resources should be targeted at goods suspected of being part of large-scale, money-making operations. International agreements have acknowledged that goods found in personal luggage that are of a non-commercial nature should not typically be the subject of seizures or investigative operations unless it is proven to be part of a larger-scale operation.⁸⁷

Seeking Innovative Solutions Through Cooperation and Partnership

There are many examples of enforcement success that has been obtained by virtue of cooperation among national customs agencies and between those agencies and industry stakeholders. Large-scale cooperation is necessary as counterfeiting is a global problem that requires a global response. Over the last three years counterfeit and pirated products have been seized in 140 different countries worldwide.⁸⁸ Government has a role to play in facilitating this cooperation as it must create an environment where all stakeholders: rights holders, enforcement officials and intermediaries, are aware of the importance of addressing the problem and have the tools and resources necessary to do so.

Joint International Action

There are many examples of international customs authorities working in tandem to seize counterfeit products. Operation Pangea IV, coordinated by INTERPOL, was a week of targeted action in 81 countries that involved police, customs, and national regulatory agencies, and was supported by ISPs, payment system providers and delivery services.⁸⁹ According to INTERPOL’s secretary general, Ronald Noble, “The main objective of Operation Pangea IV was to harness collective action across different sectors to assist authorities and stakeholders in INTERPOL’s 188 member countries to shut down illegal pharmaceutical websites and identify the money flow and sources behind these illicit pharmaceutical products which represent such a threat to the public.” Through Operation Pangea IV almost 13,500 websites were shut down and authorities seized 2.4 million potentially harmful counterfeit medications worth an estimated 6.5 million USD.⁹⁰

84 Digital Millennium Copyright Act

85 Industry Committee Report, Recommendation 7.

86 EC Proposal for a Regulation of the European parliament and of the Council concerning customs enforcement of intellectual property rights, p. 4

87 ACTA, Article 14.2

88 ACTA in the EU – A Practical Analysis, February 2012. BASCAP/INTA. At p. 8.

89 INTERPOL Media Release, *Global Operation Strikes at Online Supply of Illegal and Counterfeit Medicine Worldwide* September 29, 2011. Available at: <http://www.interpol.int/news-and-media/news-media-releases/2011/PR081>

Pharmaceuticals are not the only target of coordinated action. Beginning in 2007, American and European border officials started working together on projects to combat counterfeiting. Operation Infrastructure, the first joint project between the EU and the USCBP, led to the seizure of 360,000 counterfeit integrated circuits bearing over 40 distinct trade-marks.⁹¹ In undertaking this initiative, both government bodies acknowledged the global challenge of counterfeiting and piracy that required cooperation between private industry and government in order to stem the flow of fakes, promote economic development and protect consumers.⁹²

Using Available Legal Tools

On occasion, the most effective tools for addressing the problem of counterfeiting are not subject-specific laws. As noted in the discussion of Megaupload, the U.S. Department of Justice was able to use proceeds of crime provisions in order to seize and freeze assets of the corporations and individual defendants during the proceeding. Authorities in other jurisdictions have used legal provisions related to money laundering in order to encourage positive action in the fight against counterfeiting.

CASE STUDY: CITY OF LONDON POLICE

Police in London, UK were well aware of the challenges counterfeiting and piracy presented for its local economy and were seeing connections between those offences and other crimes. Interested in addressing tax evasion issues and removing revenue streams from organized crime, the Economic Crime Directorate of the City of London Police (CoLP) looked for partnerships in crime prevention. The CoLP knew that legitimate financial institutions were processing the payments received by a number of illicit sites and that this money was funding other criminal activities. In order to protect these legitimate businesses from allegations of money laundering, the CoLP looked for partnerships with these organizations in order to cut the flow of money into criminal coffers.⁹³

The CoLP reached out to the recording industry and key payment processors. In short order, they had a process in place where police would receive a tip from rights holders, investigate the service alleged to be infringing, and if the service is determined to be infringing, they passed that information on to payment

processors who could then act to terminate service. Online transactions for the purchase of counterfeit and pirated goods all require an intermediary to process the payment. Visa, Mastercard, American Express and PayPal are all trusted payment intermediaries, and by refusing to provide payment processing services to sites that are known to offer counterfeit or pirated goods, they can effectively cut the life line to these infringers. Visa, MasterCard, PayPal, Phonepayplus and Paysafe Card Group were quick to join the CoLP initiative. Other payment processors are seeing value in the process with American Express recently joining in the initiative.⁹⁴

The CoLP continues to work with INTERPOL to take steps in other countries and confiscate assets. They have indicated that this project has had the additional benefit of creating knowledge in their own organization, facilitating the exchange of skills and building positive relationships with stakeholders in their communities.⁹⁵

90 Ibid.

91 European Commission Press Release *U.S. Customs and Border Protection and European Commission Announce First Joint Operation Combatting Counterfeit Goods* February 22, 2008. Available at: http://ec.europa.eu/taxation_customs/resources/documents/common/whats_new/ec_us_joint_operation_en.pdf

92 Ibid.

93 Detective Inspector Richard Fisher and Jeremy Banks, *E-Commerce Facilitating IP Crime: Maximizing Opportunities for Intervention*, IP Expo, London, March 2012.

94 IFPI Press Release, April 27, 2012.

95 Detective Inspector Richard Fisher and Jeremy Banks, *E-Commerce Facilitating IP Crime: Maximizing Opportunities for Intervention*, IP Expo, London, March 2012.

Enforcement officials need to be willing to use innovative tools to tackle the challenges presented by counterfeiting and need to know that they will be supported with the necessary legal tools and resources. Rights holders are willing to support innovative programming in order to address the challenges they face.

Partnerships With Intermediaries

There are a number of measures through which IPR can be effectively enforced online, yet it is increasingly occurring through partnerships with “online intermediaries.” Typically, positive relationships between rights holders and these intermediaries, including online payment processors, search engines, Internet service providers, online advertisers, online retailers, web auction sites, web hosting providers, domain name system (DNS) registries and social media platforms, can provide the basis for cooperation in the prevention of counterfeit distribution. This relationship requires the support of government.

In the OECD’s *Declaration for the Future of the Internet Economy*, the organization outlined eight goals, two of which were to ensure respect for IPR and to ensure a trusted Internet-based environment which offers protections to individuals. The OECD has stated that government cooperation with Internet intermediaries is key to protecting both consumers and IPR online.⁹⁶

Payment processors have proven to be willing partners in working with rights holders to prevent the infringement of rights online. As an example, VISA participated in Operation Pangea, using its participation in the project as an opportunity to remind its clients that all of their transactions processed by VISA must be compliant with the laws in both the country of the seller and of the buyer.⁹⁷

Many sites that offer counterfeit and pirated goods derive a portion or all of their revenues from advertising. The banner and display ads that appear on these websites are frequently placed there by ad brokers who place online advertising in the view of target audiences for advertisers. Operators of sites that offer counterfeit goods also use these services to advertise their illegitimate products in association with legitimate goods. A two-pronged approach by owners of legitimate content is required to address this problem. First, advertisers of legitimate products must demand that online ad brokers not place their ads on websites that offer illegitimate goods and that these same brokers not place ads on their legitimate websites for illegitimate goods. Second, in order to avoid consumer confusion, action must be taken by ad brokers to limit the use of their services by operators of illegitimate websites. Online advertisers, also concerned about the safety of their consumers, are taking some positive action. Google has acknowledged that “Like all other Internet companies, we are fighting a war against a huge number of bad actors—from websites selling counterfeit goods and fraudulent tickets to underground international operations trying to spread malware and spyware.”⁹⁸

Recently, two major industry associations, The Association of National Advertisers and the American Association of Advertising Agencies, implemented policies to discourage their members from placing advertisements on rogue sites—sites that infringe IPR. In this process, the agencies recommended that companies include a clause in their advertising contracts that require advertisers to take “commercially reasonable measures” to prevent their ads from appearing on rogue sites.⁹⁹ The groups indicated that they made this commitment because “we should not knowingly allow our businesses and brands to supply financial lifeblood or lend a veneer of legitimacy to

⁹⁶ OECD, *The Economic and Social Role of Internet Intermediaries*, April 2010. Available at: www.oecd.org/dataoecd/49/44/4949023.pdf

⁹⁷ VISA Press Release, *VISA supports global law enforcement action against rogue online pharmacies*, October 14, 2010. Available at: http://www.visaeurope.com/en/newsroom/news/articles/2010/supporting_operation_pangea.aspx

⁹⁸ Google Official Blog *Making Our Ads Better for Everyone* March 14, 2012. Available at: <http://googleblog.blogspot.ca/2012/03/making-our-ads-better-for-everyone.html>

⁹⁹ Brendan Sasso, *Advertisers Pledge not to Support Rogue Sites*, The Hill, May 3, 2012. Available at: <http://thehill.com/blogs/hillicon-valley/technology/225249-advertisers-pledge-to-not-support-rogue-pirate-sites>

fundamentally illicit business models that threaten the jobs of millions of Americans in the creative industries and, ultimately, our national economic welfare.”¹⁰⁰

The role of government in facilitating these partnerships cannot be understated. In 2011, the European Commission brokered a memorandum of understanding between rights holders and intermediaries that established “a code of practice in the fight against the sale of counterfeit goods over the Internet and to enhance the collaboration between the signatories including and in addition to notice and takedown procedures.”¹⁰¹ In doing so, the European Commission acknowledged that the existence of the MOU should impact the behaviour of organizations, including those who were not signatories. Under the MOU Internet platforms committed to creating proactive and preventative measures to protect their clients from the harms of infringing goods and indicated they were committed to voluntary notice and takedown and would introduce policies to deal with repeat infringers.¹⁰² There are a vast number of industry signatories including Adidas, Amazon, Burberry, eBay, Microsoft, PriceMinister, Unilever, the Motion Picture Association and Proctor and Gamble.¹⁰³ Such government brokered MOUs give rights holders and intermediaries the opportunity to work together to identify strategies that meet the business needs of both business groups and protect the interests of consumers.

Online retailers can also be important players in the fight against the sale of counterfeit and pirated goods. These refer to online retailers of third-party goods and include auction sites and B2B retailers.¹⁰⁴ Online retailers and auction sites are in a position to develop and enforce internal policies on the goods appearing on their platforms and thus can prevent counterfeit goods from ever entering the marketplace. Fortunately, a number of online retailers and auction sites have voluntarily developed policies on the selling of counterfeits and are beginning to enforce violations of their policies. PriceMinister, the leading French auction site, has voluntarily developed an anti-counterfeiting policy aimed at protecting customers. Although PriceMinister has taken a consistent stand in the fight against piracy, its 2009 signing of a memorandum of understanding with the French minister of the Economy to fight counterfeiting on the Internet has certainly influenced its activity.¹⁰⁵

100 Ibid.

101 Memorandum of Understanding on the sale of counterfeit goods over the Internet, May 4, 2011. Available at: http://ec.europa.eu/internal_market/iprenforcement/docs/memorandum_04052011_en.pdf

102 Ibid.

103 Ibid.

104 The Economic and Social Role of Internet Intermediaries, p. 12.

105 *Counterfeit Goods on the Web: PriceMinister Leads the Way in Europe*, February, 2010. Available at: <http://www.prlog.org/10524036-counterfeit-goods-on-the-web-priceminister-leads-the-way-in-europe.html>

Technology Adaptation

For rights holders, the challenges of cyber-squatting by would-be infringers is an ongoing and increasing problem. Domain names can be registered by any individual. Frequently, sites that offer counterfeit goods use common misspellings of trade-marks for their sites in order to confuse or mislead the ultimate consumer and trade on the goodwill of the legitimate mark. The Internet Corporation for Assigned Names and Numbers (ICANN) has instituted a formal process through its Uniform Dispute Resolution Policy (UDRP) through which legitimate rights holders can re-claim domain names which are being used to confuse or mislead the consumer and which offer counterfeit goods.

ICANN has also created a regime that allows for the registration of new top-level generic domain names. Under this new system new domains could include

corporate names or brand identifiers. Commentators are concerned that “the potential for brand abuse will expand significantly, resulting in increased defensive domain registrations” and cause brand owners to proactively defend their brands during the registration process.¹⁰⁶ However, individuals who register new top-level domains will need to operate a domain name registry and absorb all of the costs associated therewith. These costs will be prohibitive to many smaller brands. For those brands that are able to absorb the costs of registration of new top-level domains, unauthorized sales and channel non-compliance will be more difficult as the brand owner could control who could use the domain.¹⁰⁷ The net impact of these changes on the prevalence of piracy and counterfeiting online remains to be seen, however, it is clear that these revisions will put an increased burden on brand owners to take proactive action to protect their IP online.



¹⁰⁶ MarkMonitor, *Evaluating New Top Level Domains: Opportunity or Threat*. Available at: <https://www.markmonitor.com/download/wp/wp-gTLD.pdf>

¹⁰⁷ Ibid.

COUNTERFEITING IN THE CANADIAN MARKET: CHALLENGES AND RECOMMENDATIONS

Counterfeiting causes serious economic and social damage to countries, in particular by discouraging inward investment. Manufacturers, distributors and entrepreneurs are looking for a fair trading environment in which their products or trade-marks will receive adequate protection against unfair competition. International companies are tending to reduce the number of their manufacturing and distribution sites, with the result that they are extremely selective about which countries they eventually invest in. The amount of trouble States go to in order to create a fair trading environment for these markets is therefore a crucial factor.

- World Customs Organization –The WCO and the protection of Intellectual Property Rights¹⁰⁸

Canada is conspicuously missing from the discussion of international best practices related to counterfeit goods. Canada is lagging far behind its international partners in finding innovative solutions to the problems presented by counterfeiting, and the government has not acted to foster partnerships between rights holders and intermediaries. As early as 2006, Canadian rights holders were actively calling on government to make changes to the law to prevent the flow of counterfeit goods in Canada and the use of Canada as a transshipment point.¹⁰⁹ These calls are ongoing. Canada must act quickly to establish a reputation as a protector of innovative IPR in order to forge a permanent leadership role in the knowledge economy.

Weaknesses in Canada’s Legal Regime

Obligations Under International Agreements

Canada, an important player on the global stage, is also a signatory country and participant in many international trade agreements on IP. Through its participation in the WTO, the World Intellectual Property Organization (WIPO), the Paris Convention and the North American Free Trade Agreement (NAFTA), among other agreements, it agrees to abide by certain standards, including those on enforcement of IPR. Canadian law has not kept pace with its obligations under these international agreements.

Articles 9 and 10 of the Paris Convention for the Protection of Industrial Property require customs officials to seize and hold any goods entering the country that bear false trade-marks. Border officials in Canada do not have the necessary powers in this regard. NAFTA also requires Canada to implement minimum standards for the protection of IPR, which have not been adequately implemented. Specifically, article 1714 requires that each country introduce “expeditious remedies to prevent infringements.”¹¹⁰ In the absence of summary proceedings for cases of trade-mark infringement, one must question whether Canada’s legal regime meets this obligation.

The TRIPS agreement is another example of commitments Canada has made to enforce intellectual property rights. Article 41 of this agreement emphasizes that “members shall ensure that

108 World Customs Organization, Enforcement and Compliance –IPR. Available at http://www.wcoomd.org/home_orioverviewboxes_vale-learningoncustomsvaluation_epipr.htm

109 Canadian Manufacturers and Exporters, *Position Paper – Intellectual Property Rights in Canada and Abroad*, June, 2006. Available at: http://www.cme-mec.ca/pdf/CME_IPR0606.pdf

110 NAFTA, Article 1714, <http://www.nafta-alena.gc.ca/en/view.aspx?x=299&mtpiID=ALL#A1714>

enforcement procedures ... are available under their laws as to permit effective action against any act of infringement of intellectual property rights."¹¹¹ In the absence of laws for contributory liability for suppliers in the counterfeiting chain and the absence of summary proceedings for cases of trade-mark infringement, one must question if the remedies available in Canada are truly effective. Article 58 further outlines procedures for *ex officio* powers of customs officials, which have not yet been implemented.

It is clear that borders can be used effectively by rights holders to enforce their IP rights. In Canada the effectiveness of border enforcement is significantly impaired by the inability of border officials to seize and hold counterfeit products at their own initiative. Unless the RCMP becomes involved and provides specific information about a shipment, CBSA agents are unable to act when encountering commercial shipments of counterfeit goods. What Canada needs at its borders is legislation that adequately addresses the realities of IPR theft and empowers our law enforcement officials to protect legitimate channels of trade. To achieve this, the Canadian government must grant CBSA agents *ex officio* authority to search detain, seize and destroy counterfeit and pirated goods.

Canada recently signed the ACTA, the preamble to this agreement acknowledging that "The proliferation of counterfeit and pirated goods, as well as services that distribute infringing material, undermines legitimate trade and sustainable development of the world economy, causes significant financial losses for rights holders and for legitimate businesses, and, in some cases, provides a source of revenue for organized crime and otherwise poses risks to the public."¹¹² This agreement introduces numerous provisions that will require amendments to Canadian law, including provisions which require the introduction of *ex officio* powers for border officials in order for this country to keep up with international best practices.

RECOMMENDATION 1

Amend Canadian law to ensure Canada is meeting the minimum requirements of the international agreements to which it is a signatory. In addition to implementing the revisions contemplated in Bill C-11, specific amendments that are required include:

- 1) Clarify the *Trade-marks Act* to ensure that trade-mark owners have the right to expeditious legal process in respect of counterfeiting activities
- 2) Introduce *ex officio* powers for border officials that give these officials the ability to detain, seize and destroy counterfeit products outside the normal channels of commerce.
- 3) Amend Canadian law to introduce the ability to obtain injunctions against third-party intermediaries as suggested by Article 8.1 of ACTA.
- 4) Introduce provisions of Canadian law to ensure that those who induce, jointly act with or materially aid and abet another person in committing an infringement of copyright or trade-mark are also infringing the law.

Inconsistencies in National Law

In addition to these changes to the law that are required by international commitments, there are internal inconsistencies and shortcomings in Canadian law that are a barrier to effective enforcement of IPR. As we have seen from case law, litigation is a costly and lengthy affair. In the recent case *Louis Vuitton Malletier S.A. v. Singga Enterprises (Canada) Inc.*, the plaintiffs demonstrated that the defendants knowingly and wilfully manufactured, imported, advertised and sold counterfeit articles. Their operation was conducted on a large scale over an extended period of time, confused consumers and caused harm to the brands involved because of the inferior quality of the

111 TRIPS, Article 41

112 ACTA, Preamble.

goods.¹¹³ Despite this wilful and malicious activity by the defendants, the plaintiffs had to seek a remedy under the civil system when criminal remedies could have provided a more effective deterrent effect. International best practices, reflected in the ACTA, acknowledge that countries are required to introduce criminal remedies for instances of wilful copyright and trade-mark infringement. While Louis Vuitton was able to seek statutory damages for copyright infringement, no such damages were available for trade-mark infringement and the plaintiffs had to adduce significant evidence as to the quantum of damages and the circulation of stock by the defendants in order to support the significant damages award that was ultimately made.

Unlike the *Copyright Act*, the *Trade-marks Act* does not contain any criminal remedies. In order for counterfeiters to be criminally prosecuted for their actions, this prosecution takes place under the fraud or possession of property obtained by crime provisions of the *Criminal Code*. The *Criminal Code* should clearly state that trade-mark counterfeiting is a criminal offence. The *Trade-marks Act* should also be amended to make it clear that importing, exporting and transshipping counterfeit goods are criminal offences.

When considering Canadian law on counterfeiting, the Standing Committee on Industry Science and Technology noted that there were disparities in the civil remedies in the *Trade-marks Act* and the *Copyright Act*. One disparity noted was the fact that trade-mark law does not contain any statutory damages as are available under copyright law.¹¹⁴

Furthermore, under the *Customs Act* it is not illegal to import counterfeit goods. The *Customs Act* must be modified to clearly state that the import and export of counterfeit and pirated goods is a criminal offence, in respect of which border officials can take independent action. In order for this to be effective, the definitions of counterfeit and pirated goods should be taken from the *Trade-mark Acts* and *Copyright Act* respectively.

RECOMMENDATION 2

Amend Canadian law to overcome internal inconsistencies in its applications. Specific amendments that are required include:

- 1) Introduce criminal provisions for wilful trade-mark infringement to make the *Trade-marks Act* consistent with the *Copyright Act* and international best practices.
- 2) Introduce civil remedies for trade-mark infringement to make the *Trade-marks Act* consistent with the *Copyright Act*.
- 3) Introduce provisions to make it illegal to import counterfeit goods under the *Customs Act*.
- 4) Introduce provisions in the *Criminal Code* that make wilful trade-mark counterfeiting a criminal offence.

Exploit All Available Remedies

Though the law in Canada has been amended to ensure that the proceeds of crime regime applies to *Copyright Act* offences, these remedies are not regularly exercised by enforcement officials and the penalties that are imposed for counterfeiting and piracy serve as nothing more than a slap on the wrist for professional counterfeiters. Action must be taken to encourage enforcement officials to seek strong remedies and use all tools available to them when doing so.

RECOMMENDATION 3

The government must encourage enforcement officials to seek strong remedies in the case of IPR infringements and ensure prosecutors exploit the full range of remedies available to them, including the proceeds of crime regime.

¹¹³ 2011 FC 776

¹¹⁴ Report of the Standing Committee on Industry, Science and Technology, *Counterfeiting and Piracy are Theft*, June 2007

Improving Canada's Response to Online Infringement

Distribution of counterfeit product is now regularly conducted on the Internet. There is no mechanism in Canada to address online distribution of counterfeit products. Although enforcement on the Internet is still relatively new, it is essential that Canada develop a working model that protects consumers and businesses in the digital age.

Due to the limited remedies available to rights holders, it becomes nearly impossible and incredibly cost prohibitive to use existing legal tools to respond to the increasing problem of counterfeit products being delivered through the post in small shipments. Under the current law, rights holders are able to stop shipments at the border if they obtain a court order instructing the CBSA to do so. While it is challenging to gather the data necessary to obtain such an order in respect of large shipments, it is virtually impossible for a rights holder to know if these small shipments are coming in and it is entirely cost prohibitive to engage in the civil process required to stop the shipment when dealing with so many small shipments.

Best practices seen in other countries have evolved to include systems for recording rights. Under these systems rights holders typically pay a fee to register their rights for a specific period of time. This information gives customs officials identifying information about goods that are at a high risk of being counterfeited. Systems like this, that provide for increased cooperation and information sharing between border officials, law enforcement and rights holders, are lacking in Canada. Other countries have also instituted dedicated enforcement initiatives focusing on the postal service. Canada has not taken such an active step and continues to be seen as a transshipment point for commercial scale counterfeiters.

Canada lacks programs that have been established in our major trading partners that dedicate specific resources to combating IP crime. Dedicated resources are essential to developing expertise in identifying counterfeit goods, prosecuting IP offences and building international relationships. In order for such a program to be taken seriously, it needs to be supported at the very highest level of government. In order to determine the policy, level of funding and programming objectives of such a program, guidance should be taken from international best practices.

RECOMMENDATION 4

Canada needs to develop a tactical response to the challenges of counterfeiting in the digital age. Specifically, the government should:

- 1) Identify new remedies and approaches that can address the challenge of small shipments of counterfeit goods that do not require the rights holder to obtain a court order to suspend each and every shipment.
- 2) Develop a system for recordation of rights. Such a system will ensure that border officials have the information they need to effectively exercise *ex officio* powers.
- 3) Develop a team of properly funded and dedicated enforcement professionals in order to effectively face the challenges presented by counterfeiting in the digital age. In the absence of such a team, it will be impossible to respond to the challenges of small shipments of counterfeit product delivered online, and Canada will not be effectively positioned to partner with our international counterparts in tackling multinational operations.

Building a Proactive Government Response

In addition to the increase in the tax base that would be generated by driving more legitimate trade, there are many other benefits that would be created in the Canadian economy by taking a proactive stance in respect of counterfeiting and piracy. As has been seen in other jurisdictions, strong laws for the protection of IPR lead to increased investment and result in more service offerings for consumers.

To date, Canada has seen the spin-off benefit of government action in other jurisdictions. The City of London Police have driven proactive action by payment processors; memoranda of understanding facilitated by the European Commission have facilitated cooperation between rights holders and online service providers; and the U.S. government's calls for increased cooperation have led to organizations like Google taking proactive steps to limit the advertising of counterfeit goods on its services. The Canadian government needs to have a mandate of engagement to encourage multi-stakeholder cooperation.

Coordinated action can, and has, taken place in Canada. The Canadian Anti-Fraud Centre works with Canadian brand owners, including Canada Goose, to liaise with payment processors in obtaining information to identify their consumers who are selling counterfeit products online. The goal of this project is to cut off the access of unauthorized websites selling counterfeit and pirated goods from their primary methods of payment: credit cards, wire transfers and direct account transfer. This program has enabled rights holders to provide tips to the Canadian Anti-Fraud Centre, and if a site is found to be infringing, a rights holder can then work with the financial institution, with the goal of terminating the illicit merchant's account. In this particular case, the Anti-Fraud Centre had indicated that it had suspended or was in the process of suspending 157 accounts, predominantly in Asia.¹¹⁵

Such programs need to be formalized and rolled out on a larger scale.

RECOMMENDATION 5

The government of Canada needs to take a proactive stance in combatting counterfeiting and piracy. Its leadership is essential to the development of an effective enforcement regime and facilitation of stakeholder partnerships in the country. Specifically the government should:

- 1) Create an interagency intellectual property council consisting of senior officials from various government departments, including the Department of Justice and the RCMP, with the mandate to develop public education programs, initiatives for law enforcement and policy.
- 2) Establish a specialized IP crime task force to guide and lead anti-counterfeiting and anti-piracy enforcement efforts in Canada.
- 3) Proactively engage in facilitating discussion, toward a memorandum of understanding, between rights holders and intermediaries in Canada, with a view to creating simple private remedies to combat counterfeiting and piracy.

¹¹⁵ Canada Goose Targets Counterfeit knock-offs. Available at: <http://www.thespec.com/news/business/article/675951--canada-goose-targets-counterfeit-knockoffs>

SUMMARY OF RECOMMENDATIONS:

Recommendation 1

Amend Canadian law to ensure Canada is meeting the minimum requirements of the international agreements to which it is a signatory. Amendments include:

1. Clarify the *Trade-marks Act* to ensure that trade-mark owners have the right to expeditious legal process in respect of counterfeiting activities.
2. Introduce *ex officio* powers for border officials that give these officials the ability to detain, seize and destroy counterfeit products outside the normal channels of commerce.
3. Amend Canadian law to introduce the ability to obtain injunctions against third-party intermediaries as suggested by Article 8.1 of the Anti-Counterfeiting Trade Agreement.
4. Introduce legal provisions to ensure that those who induce, jointly act with, or materially aid and abet another person in committing an infringement of copyright or trade-mark are liable for their actions.

Recommendation 2

Amend Canadian law to overcome internal inconsistencies in its applications. Specific amendments that are required include:

1. Introduce criminal provisions for wilful trade-mark infringement to make the *Trade-marks Act* consistent with the *Copyright Act* and international best practices.
2. Introduce civil remedies for trade-mark infringement to make the *Trade-mark Act* consistent with the *Copyright Act*.
3. Introduce provisions to make it illegal to import counterfeit goods under the *Customs Act*.
4. Introduce provisions in the *Criminal Code* that make wilful trade-mark counterfeiting a criminal offence.

Recommendation 3

The government must encourage officials to seek strong remedies in the case of IPR infringement and ensure prosecutors exploit the full range of remedies available to them including the proceeds of crime regime.

Recommendation 4

Canada needs to develop a tactical response to the challenges of counterfeiting in the digital age. Specifically, the government should:

1. Identify new remedies and approaches that can address the challenge of small shipments of counterfeit goods that do not require the rights holder to obtain a court order to suspend each and every shipment.
2. Develop a system for recordation of rights. Such a system will ensure border officials have the information they need to effectively exercise *ex officio* powers.
3. Develop a team of properly funded and dedicated enforcement professionals in order to effectively face the challenges presented by counterfeiting in the digital age. In the absence of such a team, it will be impossible to respond to the challenges of small shipments of counterfeit product ordered online, and Canada will not be effectively positioned to partner with our international counterparts in tackling multinational operations.

Recommendation 5

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1. Create an interagency intellectual property council consisting of senior officials from various government departments, including the Department of Justice and the Royal Canadian

Mounted Police (RCMP), with the mandate to develop public education programs, initiatives for law enforcement and policy.

2. Establish a specialized IP crime task force to guide and lead anti-counterfeiting and anti-piracy enforcement efforts in Canada.
3. Proactively engage in facilitating discussion, toward a memorandum of understanding, between rights holders and intermediaries in Canada, with a view to creating simple, private remedies to combat counterfeiting and piracy.



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