



COUNTERFEIT GOODS

IN CANADA

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Counterfeit goods, colloquially known as "fakes" or "knock-offs", are goods purporting to be something they are not. Counterfeit goods reproduce, in whole or in part, an intellectual property right (typically a trade-mark or a copyright), without authorization from its owner/manufacturer, in order to trade on that owner's goodwill and reputation, and expropriate the investment made by the owner of that intellectual property right. Any commodity to which an intellectual property adds value is vulnerable to counterfeiting. High-end luxury goods are typically top of mind, but counterfeit goods also include business-to-business goods (electronic components and automotive parts), consumer products (pharmaceuticals, cosmetics, toys, footwear, toothbrushes, make-up, contact lenses, eyewear, toothpaste, shampoos, batteries, holiday lights, DVDs, etc.) and even consumables, like rice, ginseng, mushrooms and alcohol. Each of these types of counterfeit goods have been found in Canada.

Recently, Justice Gleason of the Federal Court of Appeal expressly recognized the seriousness of dealing in counterfeit goods, as reflected in the following passages of his decision in *Chanel S. de R.L. v. Lam Chan Kee Co.*, [2016] F.C.J. No. 368 (F.C.A.) at para. 25.

[T]he repeated sale of counterfeit goods is serious misconduct worthy of sanction and justifies damages awards that are high enough so as to deter the defendant and others from engaging in such reprehensible conduct. ... this kind of theft constitutes a very serious offence, more serious than a theft of some other material or property because it strikes at the heart of what differentiates a progressive, creative society [that protects intellectual property rights] from one that is [and does] not.

Civil Causes of Action

While there is no civil cause of action in Canada that expressly recognizes "counterfeit goods", civil enforcement is achieved applying principles of trade-mark law and/or copyright law.

Dealing in counterfeit trade-marked goods is prohibited, but requires trade-mark owners to establish, on a balance of probabilities, the constituent elements of an action for trade-mark infringement, passing-off or depreciation of goodwill (Trade-marks Act, R.S.C. 1985, c. T-13, ss. 7, 19, 20 and 22). Upon a successful finding of infringement, passing-off or depreciation of goodwill, the trade-mark owner is entitled to claim the remedies found at s. 53.2(1) of the Trade-marks Act, including an injunction, recovery of damages or profits and an order for the destruction of the counterfeit trade-marked goods.

Similarly, dealing in "pirated works" (the more typical term of art used in association with counterfeit goods that infringe copyright) can be stopped if the copyright owner establishes, on a balance of probabilities, the constituent elements of an action for copyright infringement (Copyright Act, R.S.C. 1985, c. C-42, ss. 3 and 27).

Copyright infringement in the context of tangible goods necessitates careful consideration of the commodity itself (i.e., is it a useful article), because of an exception that does not recognize copyright in useful articles that are manufactured in quantities greater than 50, such as clothing designs, jewelry and the like. In a recent decision of the Federal Court, subsistence of copyright and substantial copying was established, however, the Court

determined there had been no infringement of copyright because the copyrighted works were "useful articles" that had been reproduced more than 50 times throughout the world (Corocord Raumnetz GMBH v. Dynamo Industries Inc., [2016] F.C.J. No. 1403 (F.C.)).

Upon a successful finding of copyright infringement, a copyright owner may be entitled to remedies found at ss. 34(1), 35 (1) and 38.1(1) of the Copyright Act, such as an injunction, damages and/or accounting of profits and an order for destruction or delivery up. The Copyright Act provides the option of electing statutory damages per copyrighted work infringed (rather than damages and an accounting of profits).

There is no corresponding right to statutory damages in the Trade-marks Act. However, a line of cases involving counterfeit goods in the Federal Court have awarded minimum compensatory damages, in fixed amounts. In some cases the Court has awarded damages per trade-mark infringed; however, in the majority of cases, damages have been awarded on a per act of infringement basis. The amounts awarded vary depending upon the nature of the counterfeiter's business and have increased over time to account for inflation, as follows:

- itinerant vendors \$4,250;
- fixed location retailers \$8,000; and
- importers/wholesalers/distributors \$30,000 (Chanel S. de R.L. v. Lam Chan Kee Co. at paras. 36-41).

These awards, referred to as minimum compensatory damages ("MCD"), arose from cases in which defendants delivered absolutely no documents to substantiate their manufacture and sale of counterfeit goods, making it difficult to quantify the extent of the actual damages sustained. Mr. Justice Pelletier, then of the Trial Court, stated in Ragdoll Productions (UK) Ltd. v. Jane Doe, [2002] F.C.J. No. 1232 (F.C.) at para. 37:

It is always open to a defendant to prove the extent of its trade in counterfeit goods and to seek to have damages assessed on the basis of its actual sales. But where vendors keep no records, it does not lie in their mouths to say that the plaintiff has no evidence by which to prove the damages flowing from their business operations.

The Federal Court is now calculating damages in counterfeiting cases using a multiplier of the fixed minimum compensatory damages times the number of instances of infringement. Canadian courts have also held that minimum compensatory damage awards are available for losses suffered by both trade-mark owners and exclusive licensees/distributors (Harley-Davidson Motor Company Group, LLC v. Manoukian, [2013] F.C.J. No. 219 (F.C.)). As a result, two plaintiffs can double the damages awarded.

Recently, the Federal Court issued default judgments against defendants engaged in the wholesale and retail sale of counterfeit merchandise from various flea market locations. The damages awarded were based on the application of an award of minimum compensatory damages, per instance of infringement, which totaled in the millions of dollars. In Guccio Gucci SPA and Gucci America Inc. v. Bobby Bhatia, the defendants were found to have dealt in counterfeit Gucci merchandise on at least 24 occasions. Despite the service of numerous cease and desist letters and notwithstanding the seizure of counterfeit Gucci merchandise by the police following the execution of a criminal search warrant, the wrongful conduct had persisted. The Court quantified damages as $24 \times \$29,000$

(MCD), totalling \$696,000, and awarded that to the intellectual property owner. The equivalent amount was awarded on the same basis to the exclusive licensee of the intellectual property owner. Separately, punitive damages were awarded to each plaintiff in equal amounts. The same concept was applied in *Louis Vuitton et al. v. Bhatia*, yielding different monetary award based on the number of occurrences and additional copyright infringement claims.

Punitive damages can also be awarded in counterfeiting cases if the relevant factors enumerated by the Supreme Court of Canada in *Whiten v. Pilot Insurance Co.*, [2002] S.C.J. No. 19 at paras. 112-113, are met. Justice Snider in *Louis Vuitton Malletier S.A. v. Yang (c.o.b. K2 Fashions)*, [2008] F.C.J. No. 59 at para. 48, summarized those factors, in a counterfeiting case, as follows:

- whether the conduct was planned and deliberate;
- the intent and motive of the defendant;
- whether the defendant persisted in the outrageous conduct over a lengthy period of time;
- whether the defendant concealed or attempted to cover up its misconduct;
- the defendant's awareness that what he or she was doing was wrong; and
- whether the defendant profited from its misconduct.

The challenges associated with civil counterfeiting cases are less often about proffering evidence of infringement and more often about: (i) ascertaining the identity/location of the counterfeiter who is commercializing the counterfeit goods; (ii) obtaining and/or preserving evidence to establish the scope of the enterprise; and (iii) obtaining a meaningful and enforceable remedy (such as a defendant with exigible assets or presence in a jurisdiction where a court order can be enforced). These challenges are exacerbated by online commerce and the ease by which parties can destroy electronic evidence.

In light of these challenges, motions for extraordinary remedies, including interim or interlocutory injunctions, preservation orders and variants such as Anton Piller Orders, Norwich Orders or Mareva injunctions, are relied upon, subject to the applicable procedural and substantive legal safeguards.

Criminal Offences

On January 1, 2015, criminal offences were added to the Trade-marks Act to crack down on the sale of counterfeit goods. It is now an offence to sell, offer for sale or distribute on a commercial scale any goods in association with a trade-mark if such conduct is or would be contrary to ss. 19 or 20 of the Trade-marks Act and the persons knows that:

- a) the trade-mark is identical to, or cannot be distinguished in its essential aspect from, a trade-mark registered for such goods; and
- b) the owner of that registered trade-mark has not consented to the sale, offering for sale or distribution of the goods in association with the trade-mark (Trade-marks Act, s. 51.01 (1)-(9) of and Copyright Act s. 42 (1)).

The offence provisions also extend to the manufacture, possession, importation and exportation (or attempted exportation) of goods, labels or packaging (and the trafficking of same) bearing the owner's trade-mark, without permission, on a commercial scale.

The offence provisions of the Copyright Act also make it an offence to knowingly sell, rent, distribute, offer for sale or rent, possess, import for sale or rent, export for sale or rent an infringing copy of a work or other subject-matter in which copyright subsists.

Under both Acts, offences may be prosecuted as summary offences or as indictable offences. The main difference is in the severity of the penalties, as follows:

- a) on conviction on indictment, to a fine of not more than \$1,000,000 or to imprisonment for a term of not more than five years or both; or
- b) on summary conviction, to a fine of not more than \$25,000 or to imprisonment for a term of not more than six months or both (Trade-marks Act, s. 51.01(6) of and Copyright Act s. 42(2.1)).

Although imprisonment is an available sanction, it is rarely, if ever, imposed or recommended by the Crown. The legislation also permits significant fines, however, the fines imposed tend to be low.

Conviction requires proof beyond a reasonable doubt of the act itself (*actus reus*) and the subject knowledge of the prohibited act (*mens rea*). Courts have found that *mens rea* can be proven by circumstantial evidence, such as prior civil lawsuits, judgments for infringement or possession of previously delivered cease and desist letters.

The Criminal Code, R.S.C. 1985, c. C-46, also contains provisions on fraud, passing-off and forgery involving a trade-mark, with penalties that include fines and imprisonment.

Prohibition Against Importation and Exportation

In January 1, 2015, the Trade-marks Act was amended to prohibit the importation and exportation of goods or their labels or packaging bearing, without the consent of the owner of the registered trade-mark for such goods, a trade-mark that is identical to, or that cannot be distinguished in its essential aspects from, that registered trade-mark (Trade-marks Act, s. 51.03).

Contravention of this section of the Trade-marks Act does not give rise to remedies under s. 53.2 of the Trade-marks Act, but to remedies associated with a new border enforcement regime set forth in ss. 51.05-51.09 of the Trade-marks Act.

The Copyright Act also prohibits the importation or exportation of copies of a work or other subject matter in which copyright subsists, if made without the consent of the copyright owner in the country where they were produced and they infringe or would infringe copyright had they been made in Canada by the person who is producing them (The Copyright Act, s. 44.01).

There are exceptions to these trade-mark and copyright offences, including where: (i) the goods are imported or exported by an individual in their personal baggage and the number of goods indicate that the goods are intended only for their personal use; and (ii) the goods are in-transit destined to another country (The Copyright Act, s. 44.01(s) and Trade-marks Act, s. 51.03(2)).

Border Enforcement Regime

Each of the Copyright Act and the Trade-marks Act were amended to create a regime which permits rights holders to request the assistance of Canada Customs in respect to enforcement of their intellectual property rights at the border. The border enforcement regime necessitates commencement of a civil action by the rights holder in order to effect detention beyond the time prescribed by the legislation and/or destruction (Trade-marks Act, ss. 51.04-51.1 and Copyright Act, ss. 44.02-44.11). Registered trade-mark owners and copyright owners can now register their interests with the Canada Border Services Agency and commence proceedings to prevent counterfeit goods (i.e., those bearing a trade-mark that is identical to, or cannot be distinguished in its essential aspects from, a trade-mark registered for such goods and those that infringe copyright).

Other Remedies

The Consumer Product Safety Act, S.C. 2010, c. 21, s.7 (a), prohibits the manufacture, import, sale or advertisement of consumer products that are a danger to the health or safety of Canadians. Other prohibitions relate to the packaging, labelling or advertisements of a consumer product in a manner that is false, misleading or deceptive in relation to health and safety or in a manner that is false, misleading or deceptive regarding its certification related to its safety or its compliance with a safety standard or regulation (Consumer Product Safety Act, ss. 9 and 10). This legislation gives broad powers to Health Canada inspectors to enter, inspect, test, seize, detain, order recalls, forfeit, destroy goods and/or issue administrative penalties or fines for those that do not comply with the legislation. A warrant is required if the premise being entered is a personal residence (Consumer Product Safety Act, ss. 21-22).

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