



COUNTERING the COUNTERFEITS

Finding the perpetrators, and determining if it's worth pursuing action, is just the beginning

BY CHRISTOPHER GULY

As part of his job, Brian Isaac recently purchased condoms.

Isaac, a partner in the Toronto office of intellectual property and technology law firm Smart & Biggar, bought the prophylactics as proof they were knock-offs of his corporate client's product.

While his counsel-as-condom-customer role might seem unusual, Isaac says the widespread prevalence of counterfeit goods in Canada is not, in everything from electronic and automobile parts to toothpaste and shampoo. It's an area that represents between seven and eight percent of global trade, according to FBI and Interpol statistics.

The RCMP's latest statistics show the number of occurrences involving harmful counterfeit products (toys, pharmaceuticals, perfume, cellphones and batteries, to name a few) bearing serious health and safety risks jumped from 11.5 per cent in 2005 to 30.4 per cent in 2012 of documented cases involving counterfeit and pirated goods. The total retail value of seizures of counterfeit and pirated goods increased from \$24 million in 2010 to over \$38 million in 2012. Most of the fakes seized (45 per cent) were apparel and footwear, and China, including Hong Kong, was identified as the primary source country for counterfeit products in 2012, followed by India, Pakistan, the United States and Thailand.

In a backgrounder on IP property rights crime, the RCMP advises companies to take civil action against anyone involved in pirating or counterfeiting their products. Finding the culprits, though, is the challenge.

Isaac explains that companies have either set up brand-protection groups that work in concert with in-house counsel, or hire external counsel like him to track down the origin of counterfeit goods, 80 per cent of which originate in China — a country that itself is clamping down on the global multimillion-dollar trade in knock-offs.

"There's a perception that you need boots on the



ground to get Chinese lawyers on your side there,” says Isaac, a veteran IP litigator considered one of Canada’s top experts in IP crime.

“China has changed from having an economy built in part from counterfeit sales to a country that’s been ahead of Canada in amending its laws to try and protect its patents and trademarks,” he adds, noting China addresses IP infringement through both administrative and judicial enforcement.

Canada’s efforts have largely relied on Criminal Code provisions dealing with fraud and trademark forgery until Bill C-8, the Combating Counterfeit Products Act (CCPA) which amended the Trade-marks Act and the Copyright Act to prohibit the import and export of counterfeit trademarked goods, received royal assent last December. (Previously, the Trade-marks Act had no criminal sanctions against commercial counterfeit activities, and the Copyright Act did not prohibit all activities involving counterfeits).

Isaac says the new trademark offences will also require proving an accused knew the trademark owner had not consented to the goods bearing the mark, and that the sale, advertising or distribution infringes the owner’s rights.

Among C-8’s key provisions are new criminal offences for the commercial possession, manufacture or trafficking of counterfeit trademark goods. Besides giving the RCMP the power to seize such items, trademark owners, with the help of the Canada Border Services Agency, will be able to seek civil remedies for the manufacture, distribution and possession with intent to sell counterfeit goods.

Under the CCPA, trademark holders registered with the Canadian Intellectual Property Office and copyright owners can submit a “request for assistance” (RFA) to the CBSA to detain commercial shipments suspected of containing counterfeit goods, and provide information about them and their importers to the rights holders, who in turn will bear some of the costs (not the perpetrators) associated with detaining shipments (and perhaps destroying them) at the border.

As Isaac points out, in order to be in a position to commence civil proceedings, rights holders must first have an RFA. But he’s concerned the CCPA does not give the CBSA powers of seizure, forfeiture or disposition of counterfeits, and if there’s no RFA, importers of confirmed counterfeit goods will still be able to abandon or export them, thus making Canada “a target for trans-shipment into the North American market” for such goods.

Isaac also criticizes the legislation for requiring rights holders, the “victims of crime,” to pay storage and destruction costs rather than at least imposing some of those costs on “those trying to profit by dealing in counterfeits — the importers and owners.”

Trademark and patent litigator Mark Davis, a partner with Toronto IP law firm Belmore Neidrauer, says that in light of the CCPA, one of in-house counsel’s priorities

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Brian Isaac
Smart & Biggar

should be to determine which of their company’s brands are most vulnerable to counterfeiting, and whether or not they will seek the protection available to them under the legislation once the regulations regarding the CBSA’s powers come into force.

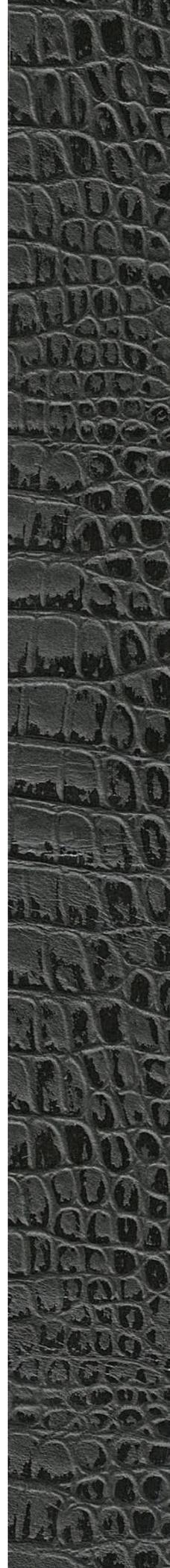
“The CBSA is going to be the linchpin in this process because reinforcing copyright and trademark infringement against counterfeiters in a meaningful way has been a constant challenge for rights owners, since counterfeiters tend to be itinerant if not located offshore,” says Davis.

Isaac says that in quantifying damages arising from trademark-infringement cases involving counterfeit goods, the Federal Court has applied a sliding scale ranging from about \$4,000 for a flea-market sale to about \$30,000 for a defendant who makes or distributes counterfeit goods. In counterfeit cases involving copyright, statutory damages can be as high as \$20,000 per work, as witnessed in the landmark counterfeiting case, *Louis Vuitton Malletier SA v. Singga Enterprises (Canada) Inc.* [2011] F.C.J. No. 908, in which the Federal Court awarded luxury brands Louis Vuitton and Burberry \$2.48 million in damages, most of which were for trademark infringement, along with punitive and exemplary damages.

Yet as Isaac points out, litigation can be expensive, and pursuing perpetrators can be, in many cases, pointless.

“For most rights holders, it’s very much a loss because if you go after everyone who’s selling counterfeit products at flea markets and shopping malls, it can become death by a thousand cuts. Sometimes, the cost to go after them outweighs the revenue loss of having fakes out there.”

He explains that although the CBSA’s new powers



are a good step, border officials will still face a challenge identifying counterfeit goods since counterfeiters often mix brands together in a shipment or the shipments are small and avoid detection.

Toronto IP and information technology litigator John Cotter, who works with in-house counsel to combat counterfeit goods, says that under the RFA program, the CBSA will only detain goods for 10 days, with a possible extension of another 10 days, and then release them if the rights owner doesn't commence court proceedings.

"Customs officers examine the goods if they suspect they're counterfeit. But they don't make the ultimate determination — a court does," he says. "If a company has to start lawsuits over a relatively small shipment, it could spend tens or hundreds of thousands of dollars on legal and investigation fees and court costs to get a judgment."

Cotter says corporate counsel must take the lead in devising a strategy that deals with counterfeit goods in a cost-effective manner and addresses key points: What type of goods are involved (luxury, which are more in demand, or low-cost brands)? Are there health and safety issues? How are the goods sold — online, in a bricks-and-mortar setting, or both? How widespread is the counterfeiting problem for the company?

"Businesses can be passive and do nothing and just wait for a customer to bring counterfeits to their attention. Or they can be proactive and out in the marketplace trying to identify counterfeit products with private investigators or employees making test purchases, or reviewing Internet postings," says Cotter, a partner in the IP practice group at Osler, Hoskin & Harcourt in Toronto. "Purchases are important for evidence to proceed either civilly and to send a cease-and-desist letter, or criminally and get law enforcement involved to execute a search warrant. But law enforcement tends to be interested more when there's a health and safety issue or larger commercial operation involved."

Davis says that many Canadian companies are policing their brands in the marketplace, such as at flea markets where bargain hunters hungry for a deal either don't care or don't know the item they're buying is a fake. Some of his in-house clients employ more sophisticated strategies to sniff out phony replicas of their company's products, but for obvious reasons Davis declines to provide any detail about such counterfeit-capture initiatives.

He says companies are often tipped off about counterfeiting through simple signs. A decrease in revenue could mean sales are being diverted to counterfeit products, or they are receiving product returns because of defects or shoddy workmanship when the products aren't even theirs.

Cotter says corporate counsel can play an important role in stressing the importance of combating counterfeiting to their company's management and marketing teams.

"Counterfeiting doesn't necessarily have a direct measurable impact on the financial results in a given year, so it can sometimes make it challenging to build a business case to invest in anti-counterfeiting initiatives. But if they don't protect their brand, it will have an impact on their sales in the future," says Cotter, who represented Microsoft in its successful claim over counterfeit software in *Microsoft Corp. v. 9038-3746 Quebec Inc.* [2006] F.C.J. No. 1965, in which the Federal Court awarded the software giant \$500,000 in statutory damages (the largest at the time in Canada) and the first case in which a plaintiff received the maximum statutory damages of \$20,000 per work infringed.

"In terms of marketing, a company can also protect its brand through public awareness campaigns to show that counterfeit goods are a problem rather than a cheap source of merchandise for consumers since they will ultimately pay for the costs of companies conducting investigations, or face higher prices for authentic goods from legitimate manufacturers losing revenue to knock-offs," Cotter adds.

He also believes the CCPA will serve as a long overdue tool to help in-house counsel combat counterfeiting, particularly through amendments made to the Trade-marks Act. Companies can now commence civil proceedings for:

- The manufacture, possession, importation, exportation and attempted exportation of counterfeits, along with counterfeit labels and packaging for the purpose of selling or distributing them — or in the case of counterfeit labels and packaging — to the goods to which they are applied; and
- The sale and distribution of counterfeit labels and packaging.

The same activities are also considered criminal offences.

"This is the first time the Trade-marks Act has dealt with the trade of counterfeit labels and packaging," says Cotter.

