

# **Stand-off at the Border – Intellectual Property Rights Holders, the Courts, Canada Customs, and the RCMP**

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October 2002**

Presented at the 76<sup>th</sup> Annual General Meeting of the  
Intellectual Property Institute of Canada  
Friday October 4, 2002, at Deerhurst Resort, Ontario

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Canada has gone only so far in implementing its North American Free Trade Agreement commitments for the seizure by Customs authorities of goods that infringe intellectual property rights. Intellectual property rights holders want to go further. The aim of this paper is to set out the available remedies under Canadian law to enable a comparison with border enforcement remedies in the U.S.

Ultimately though, border enforcement is a matter of government policy and government priority.

### **NAFTA**

In 1994, in adherence to NAFTA, Canada implemented a new scheme for the seizure by customs authorities of items that may infringe trade mark rights or copyright. Article 1718 of NAFTA requires Canada, and the other signatories to, in part:

Adopt procedures to enable a right holder, who has valid grounds for suspecting that the importation of counterfeit trademark goods or pirated copyright goods may take place, to lodge an application in writing with its competent authorities, whether administrative or judicial, for the suspension by the customs administration of the release of such goods into free circulation.

Canada added sections to the *Trade-marks Act* and the *Copyright Act* to create a new regime for seizure by Customs. Prior to NAFTA there were already provisions under the Canadian *Trade-marks Act* and the *Copyright Act* for border

enforcement. These provisions are "still on the books" although they were, and remain, seldom utilized.

Article 1718 of NAFTA makes seizure of items that may infringe intellectual property rights other than trade mark or copyright, such as patent rights and confidential information, optional. Parties to NAFTA may require their Customs authorities to act on their own initiative in detaining goods.<sup>1</sup>

Still, intellectual property rights holders are not satisfied with the Canadian regime. Essentially this is because it requires rights holders to enforce on a case by case basis, and does not give border authorities a wide mandate to independently search for and seize allegedly infringing items, which is done in the U.S. Further, requests for seizure under the Canadian scheme must be made through the Canadian courts, rather than simply by request from the rights holder to Customs as in the U.S. Only registered trade mark, and copyright (not necessarily registered) holders have recourse to Customs border enforcement in Canada. There is no equivalent provision for holders of patent rights, or industrial design rights. For them there is recourse to the usual civil remedies only, which trade mark and copyright rights holders, of course, have recourse to as well.

### **The pre-NAFTA regime**

Prior to the implementation of NAFTA there were long standing provisions of the Canadian *Trade-marks Act* and *Copyright Act* intended by Parliament that when

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<sup>1</sup> Article 1716 section 11

combined with provisions of Customs legislation authorized Customs to seize infringing goods. These were in addition to the usual civil remedies available *inter partes*. There was, as now, no equivalent for patents or industrial designs.

In the case of copyright, the remedy was administrative with the copyright owner directly notifying Customs, but was limited to re-prints of certain copyrighted works. The purpose was to enable Canadian publishers to prevent entry into the Canadian market of foreign re-prints, even those made under proper authority abroad.

In the case of trade marks, the regime provided potentially very broad protection by Court order for registered trade marks and in certain other instances.

However, the regime's very breadth deterred the Courts from enforcing it.

S.53(4) of the *Trade-marks Act* - Seizure of goods infringing a registered trade mark

Upon a Court order being granted under s.53(4)<sup>2</sup> of the *Trade-marks Act*, then s.136 of the *Customs Tariff*<sup>3</sup> provides Customs with the authority to seize goods about to be distributed in Canada, the distribution of which would infringe a registered trade mark. S.53(4) on its face it is rather innocuous and does not mention seizure of goods by Customs. Rather it simply provides that where the Court finds that the importation is or distribution would be contrary to the *Act*, it

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<sup>2</sup> previously, s.52(4), and s.51 (4)

<sup>3</sup> which in turn incorporates Tariff item no. 9897.00.00 and its various predecessors

may make an order prohibiting future importation. Once such an order is made, then the provisions of the *Customs Tariff* apply to authorize the seizure. The s.53(4) scheme also provides for seizure of any goods bearing any trade name the importation or distribution of which would contravene the *Act*, or any unlawfully applied indication of a place of origin. It is further provided that the Court may require security to be posted to answer for any damages that might be sustained, or become chargeable against the goods.<sup>4</sup>

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<sup>4</sup> s.53(2) of the *Trade-marks Act*, and its predecessors

Starting in the early 1970's, the Courts refused to make orders under the then s.53(4)<sup>5</sup> unless there was a final determination on the merits<sup>6</sup>. Thus, a consent judgment would not suffice and neither would an interlocutory or interim order. The concern was that such orders had potential to go far beyond the usual scope of injunctions in civil litigation against named parties. Effectively the Court would be granting an order enforceable *in rem*, thus enjoining the world since Customs would be conducting seizures irrespective of the identity of the importer. It was evident that the Courts did not consider the usual right of a person affected by an *ex parte* order to challenge it sufficient. Customs would not enforce a s.53(4) order unless it was obtained on the merits, and indeed would move to rescind such an order if it were not<sup>7</sup>. The Courts continued their refusal to enforce s.53(4), despite recognition that obtaining final judgment on the merits in a case involving counterfeit goods is practically impossible,<sup>8</sup> and that there are no contempt sanctions available against an importer under a s.53(4) order.<sup>9</sup> It was left to Parliament to redraft the law to strike a better balance between the interests of rights holders and the Courts' "due process" concerns.

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<sup>5</sup> s.51(4) of the *Trade-marks Act*

<sup>6</sup> *Adidas v. Kinney Shoes*, [1971] 2 C.P.R. (2d) 227, at 237 (Ex. Ct.), see also *Montres Rolex SA et al v. M.N.R.* (1987), 17 C.P.R. (3d) 507, at 515 and 518, (F.C.T.D.)

<sup>7</sup> *Montres Rolex, supra.*

<sup>8</sup> *Cartier Inc. v. John Doe et al*, [1990] 2 F.C 234, at 242-243 (T.D.)

<sup>9</sup> *Montres Rolex SA v. Balshin, et al*, [1993] 1 F.C. 236, at 259 (C.A.)

### S.44 of the Copyright Act

S.44 of the *Copyright Act*<sup>10</sup> in combination with the *Customs Tariff*<sup>11</sup> provides that owners of copyright (not necessarily registered copyright) in certain literary works can directly request that Customs seize re-prints of that work, which if made in Canada would infringe the owner's rights. The Courts are not directly involved. The purpose of this is to enable Canadian publishers to stop foreign re-prints of books from entering the Canadian market, even if the re-prints have been lawfully made abroad. While on its face s.44 is broad in that it actually refers to "any work in which copyright subsists", given it must be read in combination with the applicable Customs legislation, it is restricted to re-prints of certain literary works.<sup>12</sup>

Interestingly, s.44 of the *Copyright Act* is the only statutory provision of this type which allows an intellectual property owner to make a seizure request directly to Customs without resorting to the Courts. There are no reported cases in which there has been suggestion that s.44 should not be enforced on grounds of lack of procedural fairness to persons who could be affected by a seizure, as was the case with s.53(4) of the *Trade-marks Act*. In the one reported case, which considered s.27, the predecessor to s. 44, a *mandamus* request by a copyright

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<sup>10</sup> and predecessor, former s.27 of the *Act*

<sup>11</sup> *Customs Tariff* item no. 9897.00.00, and s.136 of the *Tariff*

<sup>12</sup> *Dennison Manufacturing v. M.N.R.* (1988) 1 F.C. 492, at 497 (T.D.)

owner to have Customs seize allegedly infringing items was refused on other grounds.<sup>13</sup>

S.44 of the *Copyright Act* and its predecessor s.27 were seldom invoked because only the copyright owner, as opposed to the Canadian publisher could do so. Provisions of the *Copyright Act* were added in the late 1990's to give "exclusive distributors" of books certain rights akin to those of a copyright owner, or exclusive licensee, including the right upon grant of a Court order under the NAFTA provisions discussed below to have books that are about to be imported seized by Customs at the border.<sup>14</sup>

### **The NAFTA provisions**

Under the Canadian NAFTA regime, all requests for seizure by Customs of items infringing trade mark or copyright right must be made through the Canadian Courts except for re-prints of books under s.44 of the *Copyright Act*. In this sense Canada has elected to implement its NAFTA obligations by extending the jurisdiction of the courts,<sup>15</sup> which will interpret it in the context of their overall authority, and the law already discussed above prior to NAFTA. Essentially Parliament has sought to address the procedural fairness concerns of the Courts by creating a scheme that apparently provides for interim seizure orders case by case. Rights holders seem to be required to go to Court each time they want

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<sup>13</sup> *Dennison Manufacturing, supra.*

<sup>14</sup> *Copyright Act* s.27.1, and s.44.2(1) and (2)

<sup>15</sup> which it is entitled to do under Article 1718 of NAFTA

seizures to be made, and notice must be provided to persons affected by the seizure, and the rights holder is required to commence an action to have the legality of the importation and distribution considered on the merits within two weeks of the notice.<sup>16</sup>

As a matter of substantive trade mark law, Canadian courts will not ban the importation of grey goods, made outside Canada under the authority of the Canadian trade mark owner, even if they are different from those authorized for the Canadian market by the trade mark owner.<sup>17</sup>

Seizure under s.53.1 of the *Trade-marks Act*

The NAFTA provisions are limited to owners of registered trade marks. Under s.53.1 of the *Trade-marks Act* they may apply to the Federal Court or the Superior Court of a province to direct Customs through the Minister of National Revenue to detain goods about to be imported, or which have been imported but not yet released, and which if distributed in Canada would be contrary to the *Trade-marks Act*. The trade mark owner is required to provide information "reasonably required" by Customs, and then Customs may be directed "to take

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<sup>16</sup> *Trade-marks Act*, s.53.1, *Copyright Act* s. 44.1

<sup>17</sup> *Smith & Nephew Inc., v. Glen Oak Inc.*, [1996] 3 F.C. 565 (C.A.); see also *Coca-Cola Ltd. v. Pardhan* (1997), 77 C.P.R. (3d) 501, at 507 (F.C.T.D.), affd (199), 85 C.P.R. (3d) 489 (F.C.A.), leave to appeal refused [1999], S.C.C.A. No. 338

reasonable measures" to detain goods. Once there has been a detention, it is mandatory to inform the owner or importer of the wares.<sup>18</sup>

The application to the Court may be made *ex parte*, except that it must always be on notice to Customs through the Minister.<sup>19</sup> Security may have to be posted.<sup>20</sup> It is within the discretion of Customs to permit inspection of the detained goods for purposes of proving or challenging the claim of infringement,<sup>21</sup> and unless the registered owner commences an action within two weeks of the notice of detention, and the Minister is so informed, the goods will be released.<sup>22</sup> Upon final disposition in the trade mark owner's favour, the goods may be destroyed.<sup>23</sup>

Where the Court finds that there has been importation into Canada of goods bearing a registered trade mark applied with the intent of counterfeiting or imitating a registered mark, or of deceiving the public and inducing them to believe the goods were made with the consent of the owner, the Court may not permit them to be exported in an unaltered state other than in exceptional circumstances.<sup>24</sup> Inherent in this is the assumption that if export is permitted without alteration, the goods will unlawfully be foisted on consumers in another country.

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<sup>18</sup> *Trade-marks Act*, s.53.1(1)

<sup>19</sup> *Trade-marks Act*, s.53.1(2)

<sup>20</sup> *Trade-marks Act*, s.53.1(3)

<sup>21</sup> *Trade-marks Act*, s.53.1(5)

<sup>22</sup> *Trade-marks Act*, s.53.1(6)

<sup>23</sup> *Trade-marks Act*, s. 53.1(7)

<sup>24</sup> *Trade-marks Act*, s.53.3

Seizure under s.44.1 of the *Copyright Act*

Analogous to s.53.1 of the *Trade-marks Act* is s.44.1 of the *Copyright Act*. Under s.44.1 of the *Copyright Act*, the copyright owner or exclusive licensee, or in the case of books, the exclusive distributor under s.44.2, may apply to the Federal Court or the Superior Court of a province for seizure by Customs through the Minister of National Revenue. Again, "reasonable measures" by Customs are contemplated. S.44.1 potentially applies to any copyrighted work (s.44.2 and 44.4 apply to specific works). There is no requirement that the copyright be registered, and the procedure is practically the same as that under s.53.1 of the *Trade-marks Act*. The critical criteria for the granting of a seizure order are that copies of the work were made without the consent of the copyright owner in the country in which the copies were made, or the copies were made elsewhere than in a country to which the *Act* extends, and that the copies would infringe copyright if they were made in Canada by the importer and the importer knows or should have known this. The second mentioned criterion probably was intended to catch countries outside of the Berne or Rome Conventions, or non-WTO Member countries, such as Taiwan.

S.44.2 sets up a scheme to prevent the parallel importing of books. As already mentioned, in addition to the copyright owner and the exclusive licensee, the exclusive distributor also has standing. The key criteria are that the copies of the book were made with the consent of the owner of the copyright in the country in which the copies were made, but have been imported without the consent of the copyright owner in Canada, and the copies would infringe copyright if they were

made in Canada by the importer, and the importer knows or should have known this. The same procedure as for s.44.1 applies. Copyright owners have the concurrent remedy under s.44 and need not go to the trouble of obtaining a s.44.2 order.

A third analogous scheme is set up by s.44.4 of the *Copyright Act* in respect of works consisting of a sound recording, performer's performance or communication signal, which is either made without the consent of the copyright owner in the country where the fixation or reproduction was made, or was made elsewhere than in a country to which Part II extends. Otherwise the procedure and provisions of s.44.1 apply.

Exceptions are set out for importation of works for personal use, government use, or use of a library or educational institution.<sup>25</sup>

#### S.14 of the *Integrated Circuit Topography Act*

S.14(1) of the *Integrated Circuit Topography Act* sets up a scheme in respect of integrated circuit topographies analogous to s.53 of the *Trade-marks Act*. S.14(4) authorizes the grant of an order banning importation by final judgment, but what is lacking is recognition of s.14(4) orders under the provisions of the *Customs Tariff*, without which Customs would not have authority to seize. Sections 14(3) and (4)(c) of the *Integrated Circuit Topography Act* contemplate a government

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<sup>25</sup> *Copyright Act* s.45(1)

seizure under a s.14(4) order, leaving it open that at a future date Parliament may amend the *Customs Tariff*.

### **Getting The Courts to Act – The Practical Side**

The statutory criteria in s.53.1 of the *Trade-marks Act* and s.44.1 – s.44.4 of the *Copyright Act* must be satisfied with affidavit evidence. Clearly considerable detail is required, especially in respect of the copyright provisions. Rights holders will need to conduct detailed investigations. How rigorous the Courts will be, and what standard they will require has not been decided in any reported case. Since the seizure is an analogous to that in an *Anton Piller* order, then the *Anton Piller* standard of a strong *prima face* case may be required. On the other hand, these provisions could be construed as independent statutory remedies without resort to the law governing *Anton Piller* orders.

### **Getting Customs to Act – The Practical Side**

Once a Court Order is obtained, or if a request under s.44 of the *Copyright Act* is being made, Customs still have to be provided with reasonable information to enable the goods to be seized<sup>26</sup>. Customs have set out what they need in a Memorandum, which is reproduced in its entirety in Appendix I. The required information includes:

- (a) Complete description of the goods;
- (b) Classification of goods under the Harmonized System;
- (c) Quantity and value of goods;

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<sup>26</sup> *Trade-marks Act* s.53.1(1)(a), *Copyright Act* s.44.1(3)(1)(i).

- (d) Identity of importer, e.g., name, address (location), Business Number;
- (e) Identity of exporter and vendor;
- (f) Country of export;
- (g) Country of origin;
- (h) Place of importation or release;
- (i) Approximate date of arrival; and
- (j) Mode of transportation (e.g., sea, rail, land).

The Memorandum makes it clear that Customs does not require all of this information. The Memorandum also sets out how notice is to be given,<sup>27</sup> that Customs will allow inspection of the seized goods in order to establish or challenge the allegation of infringement,<sup>28</sup> specifics of the detention,<sup>29</sup> and of disposition.<sup>30</sup>

### **Seizure without a Court order**

Trade mark and copyright rights holders see the process of applying to the Court as cumbersome and expensive. Depending on how fast events unfold, the goods can be in distribution in Canada before an application for a Court order with proper materials can be prepared, let alone enforced. The legal and investigation fees to obtain the order can become prohibitively expensive.

The main function of Customs in relation to goods that may infringe intellectual property rights has been to collect duties. On their own initiative, they would not

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<sup>27</sup> Memorandum items 11,15-17, 19 and 20

<sup>28</sup> Memorandum item 21

<sup>29</sup> Memorandum items 24-26

<sup>30</sup> Memorandum item 27

seize items because they infringed intellectual property rights, but might do so because the appropriate duty was not paid. In the summer of 2000, there was an announcement that Customs would seize counterfeit trade mark or copyright , goods that they encounter, and turn them over to the RCMP. The RCMP can and do seize counterfeit trade mark or copyright items as evidence of a criminal offence. How much is being done under this new partnership between Customs and the RCMP is not widely known.

In certain ports of entry like Vancouver, the RCMP and Customs do work together. If the RCMP is provided with certain minimum information by the rights holder, they will contact Customs with the information, Customs will inspect the shipment, and if they find counterfeit items they will contact the RCMP, which will then seize and detain the goods. The RCMP will in practice, do this only in respect of registered trade marks and registered copyright. The information required by the RCMP is the following:

- (a) description of the counterfeit goods;
- (b) details of registrations of trade mark or copyright
- (c) the name of the ship and when it is arriving; and
- (d) the name of the importer (which is important because Customs will not go through the entire cargo of a large ship).

What this comes down to is having good RCMP contacts. Practically speaking though the RCMP has their hands full and only limited resources for pursuing counterfeiters. The level of availability and enthusiasm varies greatly from region to region, and even from officer to officer. Also, once items are seized, charges are only seldom laid or pursued.

In Canada, there have been long-standing and well publicized concerns about the state of Canadian ports, primarily Vancouver, Halifax and Montreal. It has been reported that Customs only inspect one-percent of incoming containers. The RCMP and Customs seem hardly in a position to enforce intellectual property rights when they are more concerned with the presence of organized crime, smuggling, and security risks.<sup>31</sup>

### **The U.S. regime**

The U.S. regime differs fundamentally because U.S. Customs, once notified, will seize on their own initiative goods bearing infringing registered trade marks, trade names, and infringing registered copyright. This is set out in a Bulletin issued by U.S. Customs, a copy of which appears in Appendix II. Rights holders need not directly resort to the Courts. Procedures are set out to notify U.S. Customs by recording registered trade marks, trade names (which cannot be federally registered and therefore U.S. Customs provides an opportunity to oppose the recordal), and to record registered copyright. A fee is charged for each recordal. There is no authority to seize goods that infringe U.S. patents, however U.S. Customs will conduct a survey to provide the patent owner with the identities of importers of apparently infringing merchandise. The patent owner can then use the survey as the basis for a complaint to the International Trade Commission. The survey may be run for two, four or six months and the fee is increased accordingly. In addition, U.S. Customs offer "Lever-Rule" protection to

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<sup>31</sup> *The Globe and Mail*, "Ports Remain Vulnerable to Terror Threats", August 31, 2002.

registered trade mark owners. Under this Rule, the owner of a recorded trade mark that would not be otherwise be entitled to grey-market protection may apply to Customs to restrict the importation of genuine goods that are materially and physically different from those authorized for entry into the United States. U.S. Customs must be informed of the differences in detail.

### **Conclusion**

Seizure by Customs of goods infringing intellectual property rights is ultimately a matter of government policy and government priority. The law can only go so far. Even if the law were to be revised so that rights holders could go directly to Customs without direct resort to the Courts, a massive infusion of additional resources would be required so that Customs could fulfill its new mandate.