

REPORT ON COUNTERFEITING
AND PIRACY IN CANADA:

A ROAD MAP FOR CHANGE





The Canadian Anti-Counterfeiting Network



We are pleased to present a comprehensive report on the problem of counterfeiting and piracy in Canada entitled “A Road Map for Change.” This report is a groundbreaking compilation of the extent of the problem in Canada that offers practical and concrete solutions for key decision makers.

The report has been endorsed by The Canadian Chamber of Commerce and The Retail Council of Canada.

Our collective organizations are very concerned about weak intellectual property protection and enforcement in Canada. The explosive growth of intellectual property crime has been illustrated very clearly by various studies and information from a variety of sources as well as the media. While counterfeiting used to consist primarily of knock-off t-shirts and other novelty items, the high profitability and low risk involved has allowed criminals, including organized crime rings, to become very active, counterfeiting virtually everything including, for instance, pharmaceutical products, electrical products, software, movies, food, wine, personal care products, automobile parts and luxury goods. The Canadian government must take action now to address the problem of counterfeiting and piracy.

While intellectual property (IP) crime can lack, for some, the social stigma of many other criminal offences, this illegal activity is a drain on the economy and is responsible for loss of employment, a reduction in tax revenues for governments, and poses serious consumer health and safety risks due to the poor quality of products and sometimes hazardous nature of the fakes. Virtually no industry escapes this illegal activity.

Pressure on the Canadian government is steadily beginning to mount from Canadian and international agencies and business associations urging Canada to begin to act on this problem. Parliamentary Committees are beginning to examine the scope of the problem. From an international perspective, the United States has indicated that this issue is their top trade related issue with Canada.

Legislative changes and additional resources are required to adequately address this problem, preferably through the implementation of an omnibus bill. Effective changes to Canadian legislation will bring Canada in line with its international trading partners. Implementing the recommendations outlined in A Road Map for Change will show the world that Canada is serious about adequately protecting its knowledge based economy. Canadian industry urges the Canadian government to make this a priority.

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EXECUTIVE SUMMARY AND
RECOMMENDATIONS





EXECUTIVE SUMMARY

In Canada, the political will to address this country's serious IP crime problem has failed to materialize despite overwhelming evidence of its harm to Canadian competitiveness and a mounting tide of domestic and international criticism. Key sectors of the Canadian economy have repeatedly urged the government to take action. This report is another such call. It sets out clear actions to strengthen Canada's IP enforcement system to create an environment in which an innovation economy can thrive.

Key recommendations include:

- increasing and improving the coordination of government resources dedicated to IP enforcement and education;
- creating an effective IP border enforcement regime; and,
- enacting legislation to address shortfalls in the current legislative framework, including the lack of adequate trade-mark enforcement provisions.

Reform in this area is overdue and, according to recent public opinion research, will be popular with Canadians. Taking strong and decisive action against IP crime represents a tremendous opportunity for the federal government to demonstrate its commitment to combating crime and to Canadian economic prosperity, innovation and competitiveness.

The Problem of Counterfeiting and Piracy in Canada

Canada is particularly vulnerable to the deluge of counterfeit goods because its IP enforcement system lags behind those of many other countries including the U.S. and the U.K. The RCMP estimates that the annual cost to the Canadian economy from counterfeiting and piracy amounts to billions of dollars. This results in substantial unemployment and revenue losses in the private sector, along with significant tax losses. Numerous Canadian entrepreneurs have seen their businesses compromised by this black market activity, forcing closures, depressing profits and undermining their ability to raise capital.

Law enforcement agencies around the world have identified a clear link between counterfeiting and

organized crime. The RCMP has pointed to organized crime as a "primary actor" in counterfeiting activities in Canada, while Interpol has found that the profits from selling counterfeit goods are being used to finance international criminal organizations and global terrorism. In its 2006 annual report, the Criminal Intelligence Service of Canada noted, "across the country, multiple criminal groups are involved in the manufacturing, importation and distribution of counterfeit products."

Some consumers justify the purchase of counterfeit goods by suggesting that legitimate goods are overpriced. This mindset focuses on who is not receiving money from their purchases – legitimate vendors, innovators and creators – but ignores altogether the criminal gangs who are getting the money.

Counterfeit products raise serious health and safety concerns, from counterfeit electrical products presenting fire hazards to counterfeit medicine causing illness and death. Criminals manufacturing and distributing counterfeit products cut corners, use unsafe components and ingredients, conduct no safety testing, and have no reputation to protect. The result is a plethora of hazardous knockoffs that put Canadian consumers at risk.

Canada's lack of commitment to address the flood of counterfeit products has been sharply criticized by foreign governments, including some of this country's key trading partners. In 2006, the United States Trade Representative placed Canada on the Special 301 Watch List for the twelfth consecutive year, and announced that Canada would be subject to an unprecedented out-of-cycle-review because of our continuing failure to implement an adequate IP enforcement system. Non-governmental organizations like the International Anti-Counterfeiting Coalition and the International Intellectual Property Alliance have been similarly critical, naming Canada a "priority" counterfeit country.



As a signatory to international agreements, including the World Trade Organization Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) and the North American Free Trade Agreement (NAFTA), Canada has committed to provide effective legal protection against counterfeiting and piracy. To date, by many measures, Canada has failed to meet these obligations.

The Problems Underlying Canada's Failed IP Enforcement System

It is widely agreed that the inadequate enforcement of IP rights in Canada is due to a large extent to the insufficiency of government resources being devoted to the problem. The RCMP, which has primary authority for enforcement against IP crime in Canada, is forced to either issue “a warning” to known counterfeiters or refer the matter to an IP rights holder to take civil action. As for prosecutors in Canada, very few of them have substantive knowledge of IP criminal law and none has been tasked exclusively with IP crime. As a result, in the rare cases where counterfeiters are prosecuted, they typically end up paying minimal fines (usually less than \$10,000) and serving no jail time. Needless to say, nominal fines do little or nothing to deter counterfeiting and the organized criminals engaged in it. This contrasts with the situation in many other countries where specialized police and prosecutorial resources are dedicated to IP rights enforcement and severe penalties are imposed.

Despite their concern over counterfeiting, the RCMP and Department of Justice are encumbered by an enforcement policy that does not address trade-mark counterfeiting and that, with respect to copyright piracy, has been overtaken by changes in the way many counterfeiters operate. The copyright enforcement policy draws a distinction between a “retailer” and a “commercial” pirate, and notes, “infringement at the retail level is not an enforcement priority in its own right.” However, today’s counterfeit “retailers” regularly operate on a significant commercial scale and manufacture, label and sell counterfeit and pirated works using readily available and inexpensive computer equipment that allows them to, for instance, “burn” huge volumes of pirated copies on-site, at minimal cost. Due to the outdated policy, the RCMP rarely targets criminal copyright piracy by retailers. Further,

counterfeit retailers that distribute well known branded products bearing illegal reproductions of trade-marks are able to openly sell their blatant knockoffs to the general public at the retail level due to the lack of a federal trade-mark enforcement policy.

The Proceeds of Crime Program (POCP) is designed to remove the incentive to engage in criminal activities by identifying, restraining and forfeiting illicit wealth accumulated through crime. This objective is clearly relevant to piracy because of the high profit margins and lack of deterrent sanctions. However, the Copyright Act is one of the few pieces of federal legislation excluded from the POCP, apparently based on the faulty premise that the “benefits” obtained through this criminal activity are realistically accessible to IP rights holders. In practice, this is not the case.

For IP rights holders, civil remedies are usually ineffective because counterfeiters are criminals who carry out their activities in ways explicitly designed to avoid the justice system. Counterfeiters are often impossible to identify, properly serve or enforce orders against, and their profits are typically laundered. However, in certain situations – for example, where established corporations wilfully or negligently sell counterfeit products – specialized civil remedies may be an effective deterrent. But such remedies are not available in Canada, unlike the U.S. and other countries.

Canada’s legislation lags in key areas of IP crime. Most significantly, there is a serious deficiency in respect of criminal trade-mark provisions – specifically: offences under the Criminal Code are outdated and ineffective and there are no criminal provisions in the Trade-marks Act. In addition, there is inadequate legislation to stop film piracy; ineffective laws to curtail satellite signal theft; and, insufficient provisions to address modern counterfeiting tools and IP circumvention devices.

Though most counterfeit goods sold in Canada are imported, there is no effective system to enforce IP rights at the border. Unlike customs services in most



other developed nations, the Canada Border Services Agency (CBSA) does not have the independent authority to target, seize or destroy counterfeit goods. As a result, few seizures are made.

Piracy can only thrive in a culture where citizens view the acquisition of counterfeit goods as acceptable, thereby opening the way to consumer demand for those products. This appears to be the case in Canada – particularly among youth – where research has found that stealing IP is increasingly regarded as morally acceptable. Efforts against piracy, to be successful, should focus not only on reducing the supply of counterfeit goods, but also on demand. Increasingly, international institutions and governments, concerned by the growing proliferation of counterfeit goods worldwide, are taking such steps.

Fuelling Innovation and Prosperity – the Need For Marketplace Integrity

The rationale for IP protection extends far beyond protecting industries and individuals from organized crime. By providing a marketplace where investments in creative goods and services will be profitable, IP protection fosters innovation, job creation and economic prosperity. In developed nations like Canada, where innovation has become a key economic driver, this has never been more important. Unfortunately, it appears that all levels of government in Canada lack a sophisticated understanding of the connection between innovation and IP.

Governments can play two critical roles in assisting the growth of intellectual property: (1) promoting the supply of IP-based goods by supporting the development of a highly skilled workforce and funding research and development; and, (2) promoting the demand for IP-based goods by establishing the framework for a competitive marketplace. While Canadian governments at all levels understand that the commercialization of IP-related products is important, they have failed to devote sufficient resources to foster demand.

A simple way to improve the marketplace is to ensure its integrity by providing robust protection against IP

crime. Businesses will under-invest if they believe that their reputation and creations are subject to theft. Robust enforcement of, and wide-spread respect for, IP rights are necessary pre-conditions for innovation and prosperity. Canada needs to improve both enforcement and education about IP to become more innovative and competitive.

Governments all over the world recognize the link between innovation and strong IP protection. This is reflected in initiatives to strengthen enforcement in many countries including G-8 nations like the U.S., the U.K. and Japan, and less developed nations like Brazil, Kenya and Indonesia. Canada has not taken any such initiatives and unless this changes soon, rampant black market activity will increasingly undermine Canada's capacity to innovate and prosper.

International Best Practices

The fact that Canada is far behind other developed nations in its anti-piracy efforts provides domestic policy-makers with the opportunity to benefit from international experience. Policies implemented in other countries offer a proven road map for Canada to reduce the supply of and demand for counterfeit goods. IP enforcement regimes in the U.S. and U.K., regional initiatives in Europe, and the World Customs Organization model legislation demonstrate some of the many options available to Canada to deter piracy and nurture an innovative economy.

Conclusion

Counterfeiting has become a serious problem that costs the Canadian economy billions of dollars, depressing innovation, funding organized crime, risking the health and safety of consumers, and damaging Canada's international reputation. Taking strong and decisive action on this issue represents a tremendous opportunity for the government to demonstrate its commitment to economic prosperity, innovation and competitiveness. In addition to supporting improved relations with our major trading partners, the recommendations outlined in this report are in keeping with the government's key priorities of cracking down on criminals and strengthening Canada's borders.



RECOMMENDATIONS

Resources Dedicated to Counterfeiting and Insufficient Criminal Penalties

RECOMMENDATIONS:

- 1.1 Provide the RCMP and the Department of Justice with adequate financial and human resources to effectively address counterfeiting.
- 1.2 Adequately fund an Intellectual Property Crime Task Force, composed of police officers, customs officers, and federal prosecutors, to guide and coordinate IP criminal enforcement.
- 1.3 Establish a reporting system to provide statistics on and precedents for the Canadian IP enforcement system.
- 1.4 Immediately encourage prosecutors to seek more significant penalties, including jail time.

Counterfeit “Retailers” Not Prosecuted

RECOMMENDATION:

- 2.1 Revise the RCMP/Department of Justice Copyright Enforcement Policy to target copyright piracy and trade-mark counterfeiting at the retail level.

Proceeds of Crime Legislation Excludes Copyright Piracy

RECOMMENDATION:

- 3.1 Remove the *Copyright Act* from the list of indictable offences excluded from Proceeds of Crime legislation.

Outdated and Ineffective IP Crime Legislation

RECOMMENDATIONS:

- 4.1 Enact legislation clearly defining trade-mark “counterfeiting” as a specific criminal offence under the *Trade-marks Act*.
- 4.2 Enact legislation to make the fastest growing source of commercial video piracy – camcording in a theatre – an offence in the *Criminal Code*.
- 4.3 Amend the *Radiocommunication Act* to address the new forms of signal theft, increase criminal penalties to facilitate effective enforcement, limit importation of satellite receiving and decoding tools, and strengthen civil remedies.
- 4.4 Enact criminal legislation clearly defining offences for commercial circumvention activities (including trafficking in circumvention devices) and treat those activities as well as the commercial distribution of pirated digital works as a criminal enforcement priority; enact civil legislation that clearly makes persons who distribute pirated works and persons who manufacture and/or distribute counterfeiting tools, such as mod chips, liable for contributory copyright infringement.

Lack of Effective Anti-Counterfeiting Civil Remedies

RECOMMENDATION:

- 5.1 Strengthen civil remedies for counterfeiting. In particular, the civil legislation should provide for: (i) statutory damage awards, including minimum “floor level” damage awards and heightened damage awards for willful or repeat offenders; (ii) specialized injunctions and seizure orders upon proof of counterfeit activities; and (iii) summary enforcement proceedings.



Disempowered Customs Officials

RECOMMENDATIONS:

- 6.1 Implement legislation clearly prohibiting the importation of counterfeit goods.
- 6.2 Provide the CBSA with the express authority to target, detain, seize, and destroy counterfeit goods on its own initiative and to implement policies promoting the detection of such goods, such as mandatory reporting of brand information with shipments.
- 6.3 Formalize intelligence sharing and investigative enforcement management through cooperation between the RCMP and CBSA.
- 6.4 Make provisions for the disclosure of information and the provision of samples to IP rights holders for the purposes of determining whether detained goods are counterfeit and enabling IP rights holders to exercise civil remedies.
- 6.5 Introduce administrative fines for the importation or exportation of counterfeit goods. The fines should be set sufficiently high to act as an effective deterrent.
- 6.6 Adopt a recordation system whereby IP rights holders may record their rights with CBSA and highlight “high-risk” products that are known or likely counterfeit targets.

Troubling Ethics: The Culture of Piracy in Canada

RECOMMENDATION:

- 7.1 Establish a federal Intellectual Property Coordination Council consisting of senior civil servants and IP rights holders whose key objectives would include: (i) creating and implementing educational programs, with emphasis on Canadian youth, that teach the rationale for and importance of intellectual property; (ii) communicating with IP right holders to ensure that their IP needs are being met by the current application of the laws; (iii) developing broad-based marketplace framework policies that focus on sustaining and growing the creation and exploitation of IP in Canada; (iv) ensuring that all government departments recognize the importance of IP in the creation and development of strategies designed to make Canada more competitive and innovative; and (v) creating and implementing specialized enforcement educational programs, e.g., educating police, customs officers, prosecutors, and the judiciary, to assist in sophisticated and efficient IP enforcement and adjudication.



INTRODUCTION





INTRODUCTION

Canada has faced mounting domestic and international criticism in recent years for its failure to update its intellectual property (IP) crime enforcement regime to curtail the deluge of counterfeit and pirated goods entering the Canadian marketplace.* Critics of Canada's inadequate enforcement system include IP rights holders,¹ police officials,² legal experts,³ trading partners,⁴ non-governmental anti-counterfeiting groups,⁵ and Canadian news media.⁶ They have variously described Canada's IP enforcement system as "inadequate," a "failure," "humiliating," and "embarrassing" and have labelled Canada a "haven for pirated and counterfeit goods" that is "out of step with practice in the European Union, the United States, and other countries."

In 2004, the *National Post* reported:

The [U.S. Trade Representative] report places Canada on a "Watch List" of countries the U.S. believes can do more to protect both consumers and intellectual property owners. Included on the list are countries such as Thailand, Vietnam, and Guatemala. ... Yesterday's report is just the latest blow to a country that has long been criticized for its soft stance on counterfeiting. Once only found in flea markets, counterfeit goods are now commonplace on the shelves of legitimate Canadian stores. Last year, a *National Post* investigation uncovered a flurry of hazardous fake products, including faulty electrical switches, toys made with contaminated material, and cosmetics laced with toxins. The potential earnings are so high, police say, that organized criminals and even terrorist networks have joined the racket.⁷

In September 2006, *National Magazine*, the monthly periodical of the Canadian Bar Association, described the inadequacy of the Canadian IP enforcement sys-

tem under the heading "Economic Nightmare" and concluded that:

Canada, in particular, has earned the unwelcome notoriety for its failure to effectively combat the import of counterfeit products, many of which flow out to the U.S. and elsewhere. ... "Canada is a cesspool," says David Wotherspoon, a partner with Fasken Martineau Du Moulin LLP in Vancouver who does a lot of anti-counterfeiting work. "For instance, in 2004, the American border authorities seized approximately 30,000 inbound shipments of counterfeit goods. In Canada, the number was six."⁸

Despite this mounting criticism and the fact that the Royal Canadian Mounted Police (RCMP) estimates that Canada loses billions *per year* because of counterfeiting, successive federal governments have failed to enact remedial legislation. The problem is particularly acute in the Department of Industry, where enforcement issues and IP marketplace framework policy (and in particular copyright and trade-mark issues) have failed to register as a priority.⁹ This can be contrasted with the sophisticated IP positions and policies of the American and British governments. A Canadian federal interdepartmental working group has worked on the problem for a number of years without resolution. In contrast, aided by clear political direction, the UK Gowers Review of Intellectual Property delivered conclusive recommendations within a year.¹⁰

In Canada, the political will to address the IP crime problem has failed to materialize despite the mounting tide of domestic and international criticism. Canadian industry representatives from key sectors of the Canadian economy have repeatedly urged the

*The terms "counterfeiting" and "piracy" are often used interchangeably, though technically "counterfeiting" refers to clear-cut unauthorized trade-mark infringement, while "pirating" refers to blatant unauthorized copyright infringement. Generally, however, both terms refer to the same thing: unauthorized knockoffs of legitimate products. In line with the common usage of many commentators, this report will use the terms interchangeably to refer to illegal knockoffs, except in cases where it is necessary to distinguish their technical meaning. In the very limited instances where technical definitions are necessary, the respective terms will be defined as "trade-mark counterfeiting" or "copyright piracy."



government to take action on this critical problem that adversely impacts our country's global competitiveness. This report is another call for action. It sets out clear objectives to strengthen Canada's IP enforcement system – objectives directly linked to the government's agenda of cracking down on crime and fostering a competitive, knowledge-based Canadian economy.¹¹

The report is structured in four parts:

(1) Part One outlines the effects of the counterfeiting problem in Canada. This section underscores how the theft of IP, an activity demonstrably linked to organized crime: (i) damages legitimate business; (ii) places the health and safety of Canadians at risk; (iii) undercuts government revenues; (iv) has damaged Canada's international reputation; and (v) has caused Canada to breach its international treaty obligations.

(2) Part Two examines the foundation of this crisis, which includes: (i) insufficient police and prosecutorial resources; (ii) outdated and inadequate policies and laws; (iii) disempowered customs officials; and (iv) an environment that promotes a culture of piracy in Canada.

(3) Part Three demonstrates a direct correlation between a strong IP enforcement system and a successful, innovative economy. This section discusses the government's responsibility not only to foster the *supply* of IP-based goods by assisting in the development of a highly skilled workforce and the funding of both high-quality research and development facilities, but also to promote the *demand* for IP-based goods by providing the framework for a competitive marketplace. While clearly understanding that the commercialization of IP-related products is important, governments at all levels have failed to devote sufficient and appropriately targeted resources to foster demand. A simple and expedient way to improve our marketplace is to ensure its integrity, which is best accomplished by affording robust protection against IP crime with the goal of putting the "bad guys" out of business.

(4) Part Four examines international best practices, with particular emphasis on the United States and the United Kingdom.

Specific recommendations are made in the report, which, if implemented, will constitute a starting point from which Canada may move to re-enter the mainstream of the international IP community. Generally, Canada needs to create an environment in which an innovation economy can thrive. As the Gowers Review concludes: "The Intellectual Property (IP) system provides an essential framework both to promote and protect the innovation and creativity of industry and artists."¹² The Review goes on: "innovative ideas create value, whether they are improved products, new brands or creative expressions. As a result, IP rights – the means by which these assets are owned – have become a cornerstone of economic activity."¹³ This is no less true of Canada.

In addition to the leading economists, business leaders, policy advisors, and academics who believe that a strong IP system is a critical prerequisite to innovation and prosperity, an Environics survey in 2006 found that:

- 93% of Canadians either strongly agree or agree that the creation of intellectual property is *essential* for Canada's long-term economic growth and prosperity.
- 89% of Canadians either strongly agree or agree that patent, copyright, and trade-mark laws are required to protect those who create intellectual property for a period of time so that they can sell or commercialize their ideas.¹⁴

Reform in this area is overdue and will be popular with Canadians. So why the delay? Taking strong and decisive action against IP crime represents a tremendous opportunity for the federal government to demonstrate its commitment to economic prosperity, innovation, and competitiveness. Canada does not need to invent solutions but merely to import and improve upon best practices from around the world. Given our emphasis on innovation, when it comes to IP protection, Canada should be leading the way.



THE PROBLEM OF
**COUNTERFEITING AND
PIRACY IN CANADA**





PART ONE: THE PROBLEM OF COUNTERFEITING AND PIRACY IN CANADA

(i) The Negative Economic Impact

The black market by its very nature cannot be measured precisely. Experts who have studied the problem, however, have suggested that the flow of counterfeit goods is nearly 100 times what it was 20 years ago.¹⁵ The World Intellectual Property Organization (WIPO) has referred to counterfeiting as a global “epidemic.”¹⁶ Canada is particularly vulnerable to the deluge of counterfeit goods because its IP enforcement system lags behind those of its peers, including the United States, the United Kingdom, and France. The RCMP estimates that the cost to the Canadian economy from counterfeiting and piracy is in the billions.¹⁷ Some key indicators of the problem include:

- In 2005, the loss to the software industry as a result of piracy was approximately \$736 million. This meant a tax loss of \$345 million and a loss of thousands of software-related jobs.¹⁸
- Between 2004 and 2005, counterfeit seizures by the Canadian Motion Picture Distributors Association (CMPDA) jumped by 317 percent. In the same year, the number of pirated DVDs seized by the CMPDA increased by 960 percent. The annual consumer spending loss in Canada due to film piracy in 2005 was estimated at approximately \$270 million, while the loss of tax revenues due to film piracy in Canada in 2005 was estimated at approximately \$41 million.¹⁹
- It is estimated that 18 percent of Canada’s movie-watching public over 10 years of age was engaged in some form of film piracy in 2005 – within a percentage point of Russia, Mexico, and China.²⁰
- As a result of the combined impact of the physical and online black markets, the Canadian

music industry’s retail sales of pre-recorded CDs and cassettes declined by 48 percent (\$637 million) from 1999 to 2006.²¹

Aggregate numbers, however, do not tell the whole story of how counterfeiters have damaged

“It is anticipated that the counterfeiting of goods will become ‘the crime of the 21st century’. The number and type of goods being counterfeited continues to climb as new products constantly appear on the scene. ... No part of Canada is immune from the effects of this type of criminality. The network can extend its tentacles into the furthest corners, capitalizing on its capability to strengthen through sheer volume with minimal overhead required.”

RCMP

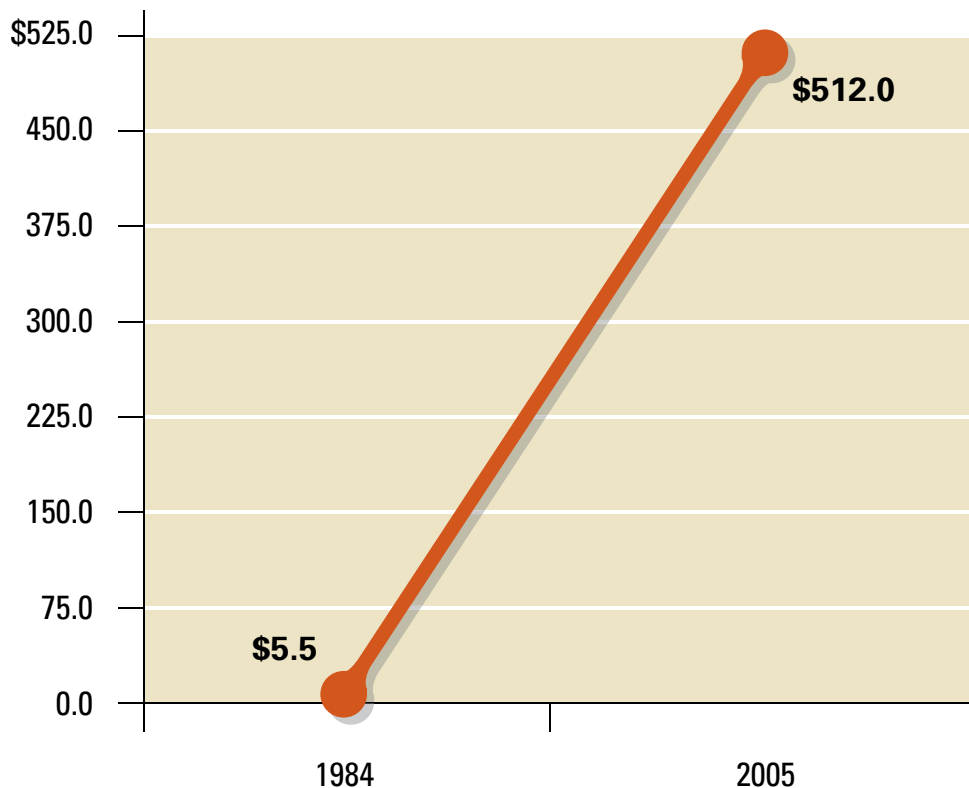
Canadian IP businesses. Behind the statistics is a human face – numerous Canadian entrepreneurs who have seen their businesses compromised because of the encroachment of the black market.²² Cases abound of businesses being forced to close; of counterfeit products depressing the profits of IP creators, manufacturers, distributors, and retailers; and of the systematic undermining of entrepreneurs’ ability to raise capital. For example:

- Robb Hoffmann, product marketing manager for Autodesk, an Ottawa-based software company, has stated that for every software program his company sells, five of its programs are pirated. This widespread piracy has directly cut into Autodesk’s ability to hire additional developers and enhance the software.²³
- Bayly Communications Inc., a privately held company in Ajax, Ontario, with about 30 employees, is a leading manufacturer of network access and transmission products for telecommunications markets worldwide. In the fall of 2002, the company estimated that 25 percent of its business was lost due to counterfeit Chinese copies. Bayly, however, has been unable to stem



GLOBAL FLOW OF COUNTERFEIT GOODS

(in billions)



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

the tide of counterfeit products because the Chinese company that manufactures them has kept its identity hidden.²⁴

- Art in Motion, a company based in Coquitlam, British Columbia, with around 400 employees, is a leading fine art publisher and wholesale framer who is one the world's foremost publishers of fine art reproductions. The company has constantly battled pirate copying of its artwork internationally, taking legal actions in North America, Asia and Europe and pursuing a strong civil enforcement policy. However, pirated products continue to pose a problem in Canada and internationally, adversely impacting the company and the many fine artists it represents.²⁵

- Stephen Ehrlick, President of Orange Record Label, a young independent record label in Toronto, Ontario, commented in 2005 on his difficulties attracting investors because of piracy:

“Private investors consistently regurgitated what they were reading in the newspapers, basically that kids were stealing music and how is a new record company like ours going to make any money. There wasn't a bank or venture capitalist that would touch us – despite a business plan that was warmly received. It was because they considered the music industry to be the Wild West – no laws, no marshals, and most importantly to them, no profits.”²⁶



A RCMP strategic intelligence analysis described the negative economic impact of counterfeiting in Canada by concluding that legitimate retailers state they simply cannot:

“... compete with the unrealistic prices of counterfeit goods being offered for sale. In the past 18 months, there has been a notable increase in the number of persons and companies who are reporting offences. Some complainants have clearly stated that they are going out of business because of IPR infringements.”²⁸

The foregoing are but a few of the many examples of direct and indirect economic damage caused by the black market.

(ii) The Threat to Canada's Health and Safety

Counterfeit products also raise serious health and safety concerns. For example, more than 166 aircraft accidents have been attributed to counterfeit

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Stephen Ehrlick, President of Orange Record Label, Toronto, Ontario

Similarly, the University of Toronto's Centre for Innovation Law and Policy hosted a roundtable in 2006 at which Canadian IP businesses graphically outlined the problems they face generating revenue and accessing capital due to the proliferation of piracy.²⁹

Counterfeiting also impairs the ability of Canadian companies to export their products around the world. For instance, Canadian icewine producers estimate that legitimate sales have dropped by more than 50 percent in some markets because of counterfeits:

“[Icewine sales in Taiwan] peaked around 1996 then plummeted. “All of a sudden, there was a huge inflow of counterfeit icewines, and we saw legitimate sales drop by more than 50 percent,” said Bill Ross president of the Canadian Vintners Association. “Price pressure is tremendous, with legitimate icewine selling for \$75 to \$100 a bottle and counterfeits going for \$25.” It's hard to know how much fake icewine is being sold, but the amount is estimated to be huge. ...Canadian producers speculate their sales would more than double if something could be done about fakes.”³⁰

plane parts worldwide.³¹ Counterfeit brakes have caused a multitude of car accidents in North America.³² Unsuspecting patients have taken counterfeit medicine.³³ In 2003, the World Health Organization estimated that 8 percent of the medicine sold worldwide was counterfeit.³⁴

The health and safety problem associated with counterfeit goods was recently highlighted in a case where a Hamilton, Ontario pharmacist sold counterfeit blood pressure medicine to unknowing consumers. As a result of the fake drugs, the Chief Coroner for Ontario made a number of formal recommendations, including that (i) current resources allocated to the elimination of counterfeit medication should be reviewed; and (ii) existing statutes and regulations regarding counterfeit medications should be reviewed taking into account “emerging trends in criminal methodology” and “enforcement strategies that have proven effective in other jurisdictions.”³⁵ Other health and safety examples include:

- In 2002, Canadian authorities seized over 800,000 counterfeit batteries imported from China. The batteries contained mercury (despite packaging representing that they did



not), raising environmental issues, and were not properly vented, causing them to explode under sustained loads.³⁶

- In 2003, U.S. Customs officials seized 17,000 bottles of counterfeit shampoo imported from Canada. The shampoo was contaminated with bacteria that could cause infection. Health Canada officers subsequently found and removed the same counterfeit products from drug stores in several Canadian provinces.³⁷
- In 2005, the RCMP seized thousands of counterfeit extension cords bearing forged Underwriters Laboratories (UL) certification markings. When UL tested the knockoff cords, the cords melted and caught fire within a matter of minutes.³⁸
- In 2000, circuit breakers bearing counterfeit certification marks and company trade-marks were found in a hospital panel board supplying power to life-support equipment in an intensive care ward.³⁹

This list provides a few glaring examples of the health and safety issues raised by counterfeit products.⁴⁰ The problem arises from the fact that criminals manufacturing and distributing counterfeit products are generally driven solely by the desire for profit. Expensive components are minimized or left out, particularly where they will not affect the appearance of the product (such as copper in extension cords, active ingredients in pharmaceuticals, and venting systems in batteries).

(iii) Links with Organized Crime

“IPR crime is dominated by organized crime. It is clear ... that the more sophisticated networks in Canada have organized crime involvement at some or all points of the supply chain, from manufacturing to sales.”

CISC

Law enforcement agencies around the world have identified a clear link between organized crime and counterfeiting.⁴¹ For example, Interpol has found that the profits from selling counterfeit goods are being

used to help finance international criminal organizations and global terrorism:

“Criminal activity in connection with IP crime knows no boundaries and is being facilitated through the involvement of organized crime. Extensive evidence is now available from both the public and private sectors, which demonstrates that organized criminals and terrorists are heavily involved in planning and committing these crimes.”⁴²

At the 2005 Security and Prosperity Partnership of North America (SPP) meeting, the governments of the United States, Canada, and Mexico declared that:

“Organized crime syndicates increasingly use global trading lanes to distribute and sell counterfeit goods worldwide, costing North American rights holders billions of dollars each year.”⁴³

The RCMP also has expressly acknowledged the link between organized crime and counterfeits.⁴⁴ In a 2005 report, the RCMP declared that organized crime was a “primary actor” in counterfeiting activities in Canada.⁴⁵ The Criminal Intelligence Service of Canada (CISC), made up of the RCMP, provincial police forces, and other government agencies, concluded this in its 2005 annual report:

“[Interpol has found that] IPR crime is dominated by organized crime. It is clear... that the more sophisticated networks in Canada have organized crime involvement at some or all points of the supply chain, from manufacturing to sales.”⁴⁶

In its 2006 annual report, CISC noted that the IP crime wave was worsening in Canada:

“Recent years have seen an increase in the diversity and number of dangerous counterfeit products being brought into or illegally manufactured in Canada. These products are sold in a variety of sales venues, sometimes extending to large retail chains. ... Across the country, multiple criminal groups are involved in the manufacturing, importation, and distribution of counterfeit products.”⁴⁷



(iv) The Negative Impact on Canada's Reputation

On April 28, 2006, the United States Trade Representative (USTR) placed Canada on the Special 301 Watch List for the twelfth consecutive year. It also announced that Canada would be subject to an unprecedented out-of-cycle-review as a result, *inter alia*, of our continuing failure to implement an adequate IP enforcement system. In doing so, the USTR stated:

“[The United States] calls on Canada to improve its IPR enforcement system so that it can take effective action against the trade in counterfeit and pirated products within Canada, as well as curb the amount of infringing products transshipped and transiting through Canada. Canada's weak border measures continue to be a serious concern for IP owners.”⁴⁸

Speaking at the Ontario Economic Summit on October 26, 2006, the U.S. Ambassador to Canada indicated that, at the time the decision was made to maintain Canada on the Special 301 Watch List, serious thought had been given to upgrading Canada's status to that of a Priority Country. This would have been a truly exceptional step, and the fact that it was even under consideration underscores the gravity of the situation. Because of our lax enforcement and inadequate laws, Canada has the dubious distinction of being named a “priority” counterfeit country by a number of international non-governmental bodies, including:

- The International Federation of the Phonographic Industry (IFPI), which designated Canada a “Priority Counterfeit Country” because of outdated copyright laws as well as “inadequate enforcement resources and lax border controls allowing the infiltration of pirated physical products.”⁴⁹
- The International Anti-Counterfeiting Coalition, which recommended to USTR that Canada be named a “Priority Country” because of Canada's “inadequate coordination among enforcement bodies,” “poor cooperation among the authorities and industry,” and “gaps in relevant legislation.”⁵⁰
- The International Intellectual Property Alliance, which designated Canada a “Priority Counterfeit Country,” in part because of Canada's “serious

deficiencies in enforcement against piracy.”⁵¹

- The United States Congressional International Anti-Piracy Caucus, which designated Canada as a “Watch List Country” (along with China, Russia, Mexico, India, and Malaysia) because of its failure to amend its copyright law in accordance with its WIPO obligations and because of “Canada's lax border measures [that] appear to permit the importation of pirated products from East Asia, Pakistan, and Russia.”⁵²

(v) Canada's Failure To Live Up To Its International Commitments

Canada has signed various international agreements committing to afford effective legal protection against counterfeiting and piracy, the two most prominent being the World Trade Organization Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) and the North American Free Trade Agreement (NAFTA). As a signatory to the TRIPS and NAFTA agreements, Canada agreed to ensure that its enforcement procedures:

“...permit effective action against any act of infringement of intellectual property rights covered by this Agreement, including expeditious remedies to prevent infringement and remedies which constitute a deterrent to further infringements.”⁵³

We further agreed that such enforcement procedures should:

“...not be unnecessarily complicated or costly, or entail unreasonable time limits or unwarranted delays.”⁵⁴

As well as to provide:

“criminal procedures and penalties [are] to be applied at least in cases of willful trade-mark counterfeiting or copyright piracy on a commercial scale.”⁵⁵

And:

“[procedures for] protection of intellectual property rights at the border.”⁵⁶

As will be discussed in detail in the next section, Canada has effectively failed to meet any of these obligations.⁵⁷



THE PROBLEMS UNDERLYING
**CANADA'S FAILED IP
ENFORCEMENT SYSTEM**





PART TWO: THE PROBLEMS UNDERLYING CANADA'S FAILED IP ENFORCEMENT SYSTEM

(i) Lack of Police and Prosecutorial Resources Dedicated to Counterfeiting and Insufficient Criminal Penalties

There is broad consensus in Canada that there is inadequate enforcement of IP rights at both the police and prosecutorial levels. The reasons for this are evident: (i) inadequate police resources; (ii) inadequate prosecutorial resources; and (iii) lack of training or expertise in the prosecution of criminal IP offences.

Regarding the first factor, the RCMP is quite explicit that it does not have sufficient resources to handle the problem of counterfeiting:

“Counterfeiters are clever, use sophisticated techniques to evade detection, and are networked internationally. They reap substantial profit from their activities at the cost of rights holders, employers, legitimate businesses, and the greater Canadian economy. ... *Unfortunately, limited resources are available within the RCMP to fight these crimes.*”⁵⁸

As a result of their limited resources, the RCMP does not always initiate prosecutions against counterfeiters, even when IP rights holders are able to demonstrate *prima facie* evidence of counterfeiting activities. As a recent *Toronto Star* article highlighted:

“...police say they don't have enough resources to make much of a dent in piracy. Laurence and 30 other [RCMP] officers in the GTA, for example, are tasked with enforcing some 200 federal statutes, of which intellectual property rights is just one.”⁵⁹

In many cases, the RCMP simply either issues “a warning” to known counterfeiters instead of charging them or refers the matter to an IP rights holder to take civil action. For example, in 2004, the Entertainment Software Association provided the RCMP with detailed evidence concerning 12 high priority “pirate shops” in Canada that were the leading “hot spots” for manufacturing, distributing, and/or selling pirated video games and goods. Due to its lack of financial resources and manpower,

however, the RCMP was only able to pursue criminal actions against two of the targets.⁶⁰

In the vast majority of cases where the RCMP launches investigations, they occur only after the IP rights holder provides the evidentiary basis for the prosecutions. As the RCMP has noted in regards to the efforts of IP right holders across Canada:

“The majority of investigations undertaken by the RCMP surface as a result of preliminary, often substantial, investigation by the copyright/trade-mark holder or representative. ... Often law enforcement is approached once the rights holder, or representative, has purchased counterfeit goods, has evaluated the authenticity of the goods, and has other supporting evidence to pursue a case criminally. ... Partnerships between law enforcement and industry are essential to combat counterfeiting and piracy in Canada.”⁶¹

While lack of police resources remains a major issue, the more significant problem arguably lies with the inadequate resources devoted to *prosecuting* IP crime. The simple facts are that very few

“[T]he criminal justice system does not treat copyright infringement as a serious criminal issue.”

RCMP

prosecutors have a substantive knowledge of IP criminal law in Canada and *no* Canadian prosecutors dedicate themselves exclusively to IP crime. Prosecutors do not seem to know what to do with IP cases, either pleading them out or shelving them. In the rare cases where counterfeiters are prosecuted, they typically end up paying minimal fines (usually less than \$10,000) and serving no jail time.⁶²

Even in the most egregious cases, fines are typically \$25,000 or less. For example, in what was the largest counterfeit seizure in Canadian history at the time, police seized 30,000 counterfeit CDs in 2001 with the help of the Canadian Recording Industry Association. The legitimate market price for the knockoff CDs would have been nearly \$500,000. Yet each of the three perpetrators was fined just \$25,000 and none faced jail sentences.⁶⁴ Similarly, when a



THE GRAVITY OF THE SITUATION CAN BE ILLUSTRATED BY THE FOLLOWING CASE STUDY.

On December 5, 2006, the RCMP issued a press bulletin under the title “Economic Crime Section Stamps Out Repeat Counterfeit DVD Operation.” The facts are as follows:

On March 13, 2003, after receiving a tip from the Canadian Motion Picture Distributors Association, the Richmond, British Columbia RCMP executed a search warrant in relation to a criminal counterfeit DVD retail operation at a Vancouver mall. The counterfeit “business” was operated by Mr. Lau, age 46, under the business name “Hong Kong Ying Yum Company.” Hundreds of “in-stock” counterfeit DVDs were seized, and Mr. Lau was charged under the criminal provisions of the Copyright Act. He received a \$6,000 fine.

Three months later, on June 23, 2003, the RCMP executed another search warrant, at the same mall, against Mr. Lau for counterfeiting. This time Mr. Lau was operating under the business name “Chinese Disc Company.” Once again, police seized hundreds of counterfeit DVDs currently “in stock” at the time and charged Mr. Lau. There is no evidence, however, that Mr. Lau at this time received any additional fines or penalties for his second flagrant act of counterfeiting at the same mall.

Two years later, on April 30, 2005, once again at the same mall, the RCMP executed a search warrant against Mr. Lau for counterfeiting. On

this occasion, Mr. Lau was operating in the mall under the business name “Paramount Computer Services Co.” This time the RCMP searched Mr. Lau’s storage facility and, perhaps not surprisingly, found: (i) 75,000 blank DVDs; (ii) DVD burners to manufacture counterfeit DVDs; and (iii) hundreds of counterfeit DVDs.

More than a year later, on November 11, 2006, Mr. Lau pled guilty to 83 counts of criminal copyright infringement and received a \$5,000 fine (less than the original fine, which, of course, had done nothing to deter his counterfeiting activities) and an order to remain in his residence from 11 pm to 7 am for twelve months.

In terms of the impact of the criminal penalty, a spokesperson for the RCMP declared: “You simply can’t set up shop in the same mall three times and expect to get away with this. Criminals should take notice that our Unit... aggressively investigates and pursues charges against anyone that engages in this criminal enterprise.”⁶³

In Canada, criminals engaged in IP theft are, after years of flouting the legal system, finally brought to justice, given a slap on the wrist, and sent to bed. The travesty of justice is that there are so many more criminals like Mr. Lau who are either not charged or face the same type of nominal penalties after repeatedly profiting from their crimes.

large-scale importer of counterfeit goods was caught with 13 trailer loads of fake shoes and clothing, the importer was fined only \$3,000.⁶⁵ The RCMP’s own public statement on this case acknowledges “that the criminal justice system does not treat copyright infringement as a serious criminal issue.”⁶⁶ Further, in 2004, when the RCMP seized \$100,000 worth of

counterfeit cassettes, CDs, DVDs, and VHS tapes from three vendors in Hamilton, only one vendor was actually caught in the act (he was using a CD burner at the time), and he faced a total maximum fine of \$10,000 for selling and reproducing the counterfeit music.⁶⁷ Finally, in 2006, in one of the largest fines for counterfeiting in Canadian history, a



retailer was fined \$67,000 after being caught selling over a quarter-million dollars of pirated entertainment software. Even this amount, which was much higher than fines in the vast majority of previous IP crime cases, was less than the cost of paying the applicable taxes on the legitimate products. Not surprisingly, within the year, the counterfeiter was caught again selling his pirated software.⁶⁸

The disproportionately small fines meted out do not even cover the cost of the investigation, seizure, storage, and destruction of the counterfeit material. Moreover, they do nothing to either strip the criminal of the illegal activity's proceeds or deter future criminal activity. As the RCMP notes:

*“Counterfeiters have stated to police they will continue to sell counterfeit goods because the deterrents offer no incentive to stop. IPR representatives suggest that some individuals maintain a “fine fund,” which demonstrates they realize they will likely be fined at some point, but have little intention of stopping their activities.”*⁶⁹

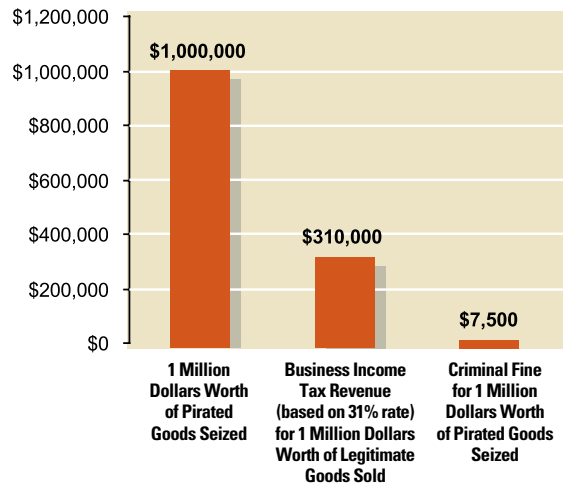
“Minimal sentences and low fines offer little incentive for law enforcement to pursue this issue more vigorously, and every incentive for criminals to continue pirating copyrighted goods.”

RCMP

The fact that the current application of criminal penalties is wholly insufficient to curb counterfeiting in Canada is clearly demonstrated by the RCMP's conclusion in its report on copyright piracy and trade-mark counterfeiting:

“Under the Copyright Act, indictable criminal offences are punishable by fines up to \$1 million or imprisonment not exceeding five years, or both. Sentencing is usually a fraction of this. Small fines reflect the perceived scope of the crime and, in some cases, a dollar amount law enforcement can prove to the court the convicted individual can pay. Rarely are criminal fines more than \$25,000

CURRENT CRIMINAL FINES - A SMALL BUSINESS EXPENSE FOR PIRATES



and are usually less than \$10,000. Recently, an individual received a \$7,500 fine and was sentenced to one year's house arrest followed by 12 months probation for possessing \$1 million worth of pirated software and selling this software over the Internet. This is the stiffest sentence ever for selling pirated software in Canada. *Minimal sentences and low fines offer little incentive for law enforcement to pursue this issue more vigorously, and every incentive for criminals to continue pirating copyrighted goods.*⁷⁰

What is wrong with this picture? IP rights holders are placed in the position of mounting expensive surveillance and evidentiary gathering activities. Police lay charges in only a select few circumstances, and it is at this stage that the true travesty begins. Prosecutors generally appear to assign low priority to IP cases brought to them by the police and are often faced with difficulty in proving all elements of the outdated IP offences currently available. Accordingly, in the cases where charges are laid, prosecutors typically plead them out for fines that are a fraction of the norm in the United States or the United Kingdom. The police can be forgiven for approaching IP crime in a less than enthusiastic manner – why bother, when your cases either do not go to court or result in minimal fines?



SOME CONCERNS OF CANADIAN JUDGES

Some Canadian judges have gone so far as to openly question the ineffective system of plea bargained minimal fines currently in place. For example, in the case of Mr. Lau described previously, Justice Chen lamented the plea bargain before him and sharply criticized the Crown's propensity for only seeking nominal penalties that do little to deter the exponential growth of counterfeiting in Canada:

“You [Mr. Lau] are very fortunate that your counsel has been able to secure a joint submission [between the Crown and the Defence] with respect to sentencing on your behalf. *Had they not done so, I would have considered a much more serious penalty for you.* ...[T]his is a widespread practice. You got caught. *But it is exactly that kind of situation that calls out for general deterrence. Some kind of message needs to be sent to the community that this is a serious offence.* ... This is theft. ... [I]t is a widespread practice and because of that, some people perhaps may not look at it as one would regard theft of other items. But the concept of intellectual property is a very important one in our society. Intellectual property protects creativity. It protects original ideas and creates property out of those ideas, enabling people who come up with those ideas to be rewarded for being able to originate and create. That concept is very important to the evolution and progress of our society. Indeed, what differentiates a progressive society or a society with a higher standard of living from other societies is the level of original thinking, creativity, inventiveness. There is a societal interest involved here which, in my view, is very important. In my view, this kind of theft constitutes a very serious offence, more serious than a theft of some other material item or property because it strikes at the heart of what differentiates a progressive, creative society from one that is not.”

In another example, an individual and a corporation were charged with offenses arising from the sale of various counterfeit products, including lamps which were a fire hazard bearing counterfeit UL safety stickers. A plea bargain was struck whereby the charges were dropped against the individual, who was the owner of the corporation and directly implicated in the counterfeiting activities, and a fine was imposed against the corporation (a repeat offender of counterfeiting activities). The judge stated:

“What I am most concerned about is the counterfeit ... safety stickers. That is despicable because what ends up in the public's hands is something that is frankly going to be dangerous, we are talking about electrical appliances that cause fires ... [which are then dressed] up with false labels and false safety certificates. [This] causes me great pause, such pause that if it was an individual who pled guilty before me today my starting point would be a term of imprisonment in a federal penitentiary, without a doubt. . . . [T]here is a saving of significant expense to the taxpayers of this country [by having the fast track plea bargain]. Having said that, I am still left with a very bad taste in my mouth from what I have heard here today. However, the joint submission is acceptable. I am bound to accept it unless I find it to be totally unacceptable.”

The bad taste in the judge's mouth was ultimately proven to be warranted since both the individual and corporation have, once again, been charged with offenses arising from the sale of counterfeit lights bearing the UL safety mark.

The open question before us is this: how do we ensure that IP crimes are treated seriously?⁷¹

RECOMMENDATIONS:

- 1.1 Provide the RCMP and the Department of Justice with adequate financial and human resources to effectively address counterfeiting.
- 1.2 Adequately fund an Intellectual Property Crime Task Force, composed of police officers, customs officers, and federal prosecutors, to guide and coordinate IP criminal enforcement.
- 1.3 Establish a reporting system to provide statistics on and precedents for the Canadian IP enforcement system.
- 1.4 Prosecutors should immediately be encouraged to seek more significant penalties, including jail time.



(ii) Counterfeit “Retailers” Not Prosecuted

The RCMP and the Department of Justice have an official enforcement policy dating back to 1998 that purports to draw a distinction between a “retailer” and a “commercial” pirate. Specifically, the policy states:

“Cases selected for investigation and prosecution should, as a matter of priority, constitute copyright piracy on a commercial scale. For purposes of this policy, “copyright piracy on a commercial scale” means commercial infringement by a manufacturer, wholesaler, or importer. *Infringement at the retail level is not an enforcement priority in its own right*, although it may prove a useful means of gaining access to more serious offences of copyright piracy.”⁷²

“Infringement at the retail level is not an enforcement priority in its own right”

RCMP and Department of Justice,
Copyright Enforcement Policy

The policy was a creature of its time. A time before commercial scale piracy was within the grasp of the common criminal. The copyright enforcement policy draws a distinction that simply does not exist today in respect of digital piracy due to readily available and inexpensive computer equipment that allows criminals to “burn” their own limitless supply of pirated copies. So-called “retailers” regularly operate on a “commercial scale” using inexpensive production equipment to constantly replenish their inventory. Yet the RCMP rarely targets this criminal activity because of the current policy that investigations “at the retail level” should be left to the private sector.

Today, spaces no larger than the back room of a strip mall store can be used as a large scale production centre producing thousands of counterfeit CDs/DVDs in a week. For example, in August 2006, Toronto police investigated a strip mall “retailer” selling pirated

DVDs and found a sophisticated manufacturing laboratory in the basement capable of producing 560 DVD movies *per hour*. During the operation, police seized approximately 20,000 pirated DVDs that were “in stock” at the time.⁷³

In Canada’s permissive environment, many criminal retailers are no doubt operating on the same scale. Yet their acts are not an “enforcement priority.”

Due to the “commercial” versus “retail” distinction drawn by the outdated RCMP/Department of Justice policy, we are left with a policy that allows “retail” stores to openly sell counterfeit CDs, DVDs, and video games “manufactured” on site. Further, retailers of various other types of counterfeit products are able to openly offer blatant knockoffs for sale to the general public in Canada due to the federal Copyright Enforcement Policy, the lack of a federal Trade-mark Enforcement Policy and the lack of any provincial IP crime programs. The problem is exacerbated in respect of trade-mark enforcement due to the fact that there is no offense section in the *Trade-marks Act* and enforcement of the *Criminal Code*, which contains trade-mark offences, is generally left to provincial authorities. The lack of retail enforcement accounts for the spread of knockoffs from street corners and flea markets to brick and mortar stores. The open sale of counterfeit goods at the retail level fuels IP crime by making the sale and purchase of knock-offs appear to be socially acceptable and, as discussed below, fuels a culture of piracy.

This is not meant to suggest that the RCMP is not extremely concerned about the problem of counterfeiting. To the contrary, the RCMP has been vociferously advocating the need to address the counterfeiting crisis for a long time. The unfortunate reality, however, is that the RCMP simply does not have the necessary resources to combat counterfeiting in light of other demands on their time.⁷⁴

RECOMMENDATION:

- 2.1 Revise the RCMP/Department of Justice Copyright Enforcement Policy to target copyright piracy and trade-mark counterfeiting at the retail level.





(iii) Proceeds of Crime Legislation Excludes Copyright Piracy

The mandate of the Proceeds of Crime Program (POCP) is to remove criminal incentive by identifying, restraining, and forfeiting illicit wealth accumulated through criminal activities.⁷⁵ This mandate is clearly relevant to piracy because of the high profit margins and lack of deterrent sanctions.⁷⁶ For example, the Motion Picture Association has found that:

“There is abundant evidence that intellectual property theft has become a preferred fundraising activity for organizations that also number among their pastimes drug trafficking, prostitution, and people trafficking. ... For good reason. The piracy business returns stellar profits. Markups on pirated goods average 1150 percent, far exceeding differential profits on those from the illegal drug trade.”⁷⁷

When the POCP was first introduced in 1989, it was restricted to a limited list of 40 offences historically related to “organized crime.” In 2001, however, the *Criminal Code* was amended so that POCP provisions would apply to *all* indictable offences under the *Criminal Code* and every other federal Act, with only a few limited exceptions. The *Copyright Act* was one of the few pieces of legislation excluded from the POCP. The apparent rationale for this exclusion is outlined in the corresponding regulatory impact analysis:

“Under the *Copyright Act*, any benefit obtained by the commission of a copyright offence should be returned to the authors whose copyright has been breached, rather than forfeited to the Crown as proceeds of crime.”⁷⁹

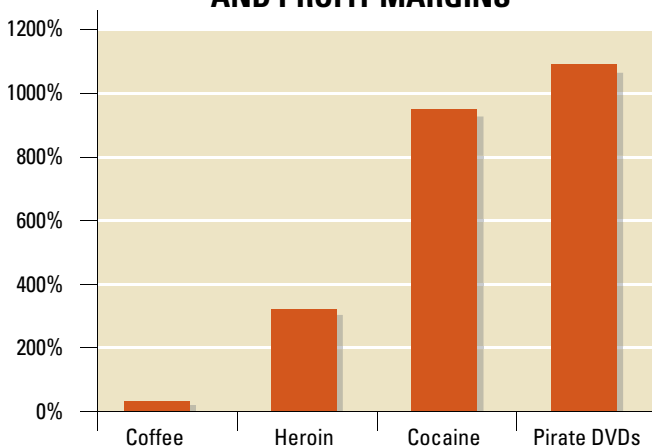
This analysis, however, appears to be based on a faulty premise; specifically, that the “benefits” obtained through criminal activity are realistically accessible to IP rights holders. Victims of piracy have clearly expressed the belief that it is in their best interest for law enforcement officials to have all existing enforcement mechanisms available to remove illicit profit from pirates. Key leaders of the copyright community have stressed that:

“...an important component of any initiative to improve enforcement is an amendment of the regulation that excludes the *Copyright Act* from the national Proceeds of Crime program. ... Copyright piracy is a growing international phenomenon generating huge losses for legitimate industry, the economy, and government. The link between piracy and organized criminal activity is now well recognized by Interpol, the

RCMP, and governments around the world, including Canada. The interests of those who are the victims of copyright crimes are served by an effective enforcement program that ensures law enforcement

authorities have all of the tools available for effective criminal justice, including the Proceeds of Crime.”⁸⁰

PRODUCT MARKUPS AND PROFIT MARGINS



Source: Motion Picture Association - International, “Optical Disc Piracy v. Illegal Drug Trafficking, October 2005” pg. 3, Figure 1.1
Adapted from UK National Criminal Intelligence Service SU/Drug Project (2004)


Cocaine markup is Columbia to Spain/UK; Heroin markup is from Iran to UK, DVD markup is from Malaysia to UK

As previously noted, the RCMP acknowledges that the current penalties are insufficient to act as a deterrent. In a recent report, they illustrated this point with the following example:

Drugs Compared to Intellectual Property Crime: A Risk

Cocaine
3 kg = \$90K
Fits a small box
Conviction = 5 to 7 years jail time

Windows XP
1,000 = \$450K
Fits a small box
Conviction = minimal fine



The fix here is undeniably simple. All that is required is for the Governor in Council to amend the *Regulations Excluding Certain Indictable Offences From The Definition Of Designated Offence*, SOR/2002-63 and to remove the *Copyright Act* from the indictable offences excluded under s. 462.3(1) of the *Criminal Code*. Doing so would help remove the financial incentive to engage in piracy, send a positive message regarding IP crime enforcement in Canada, and be entirely consistent with the mandate of the POCP.

RECOMMENDATION:

- 3.1 Remove the Copyright Act from the list of indictable offences excluded from Proceeds of Crime legislation.

(iv) Civil Remedies: An Inadequate Solution

“Civil remedies are not effective because counterfeiters are criminals. They do not respect the law, and they strategically and tactically carry out their criminal activities in ways explicitly designed to avoid the justice system, both civil and criminal.”

IP rights holders are extensively engaged in combating counterfeiting in many ways, including building the evidentiary basis required for police to lay criminal charges. With extensive experience in combating IP crime, IP rights holders appreciate that it is normally ineffective or impossible to adequately avail themselves of civil, as opposed to criminal, remedies. Civil remedies are not effective because counterfeiters *are criminals*. They do not respect the law, and they strategically and tactically carry out their criminal activities in ways explicitly designed to avoid the justice system, both civil and criminal.

For an IP rights holder to effectively enforce his or her rights civilly, the law presupposes that the counterfeiter will respect the court and its orders. This, of course, is true in the vast majority of

civil actions, where pit two fundamentally law-abiding litigants settle their disputes. But it is not the case where an IP rights holder squares off against a criminal.

As many a civil practitioner will attest, the individuals behind counterfeit activities are often impossible to identify, properly serve, or enforce orders against. Corporate searches draw a blank, profits are laundered, accounting records are non-existent, and day-to-day cash transactions are run by carefully chosen confederates. Although an IP rights holder *may* be able to obtain a “John Doe” civil seizure (Anton Piller) order, the costs of execution remain high, and neither seizures nor civil penalties have any deterrent effect.

Even in the *rare* cases where a civil order is enforced, civil remedies are designed to be compensatory in nature, not to act as a punitive deterrent. As a general rule, in a civil action, the IP rights holder is only entitled to the “accurate quantum” of losses that he or she can demonstrate were *caused* by the counterfeit activities as the Federal Court has stated:

“On the question of the measure of damages, it has been held that the defendant is liable for all loss *actually sustained* by the plaintiff that is the *natural and direct consequence of the unlawful acts* of the defendant, including any loss of trade actually suffered by the plaintiff, either directly from the acts complained of or properly attributable thereto, that constitute an injury to the plaintiff’s reputation, business, goodwill, or trade. *Speculative and unproven damages must be deleted from the calculation.* ... In cases where damages are understood to have occurred, but proof of the amount of the damages is lacking, nominal damages are sometimes awarded.”⁸¹

In terms of demonstrating an accurate quantum of damages, IP rights holders face a nearly insurmountable obstacle. Even if blatant IP theft can be proven, the IP rights holders will only receive a monetary award in proportion to either the damages he or she is able to demonstrate to the



court as a result of the counterfeiting activity or the counterfeiter's profits.* Counterfeiting is, however, a criminal enterprise that is clandestine in nature. Counterfeiters deliberately design their operations to avoid high civil awards (and taxes) by:

- not keeping accounting records;
- only having "in-stock" inventories that are small and completely "turned over" on a weekly (or daily) basis; and
- creating a "revolving door" of business fronts to immunize the principal counterfeiting operators (and their profits) from prosecution.⁸²

A line of Federal Court civil counterfeit cases has established what amounts to a *de facto* "tariff" that is levied

against counterfeiters who do not contest the quantum of damages: \$3,000 for flea market operators, \$6,000 for bricks-and-mortar retailers, and \$24,000 for large-scale manufacturers and distributors.⁸³ These awards are too small to deter counterfeiters, often are not collected, and, even when issued with an injunction, do not prevent recidivism, albeit often taking a different owner's IP the next time. Time and again, an IP rights holder obtains a civil award against a counterfeiter only to find that the next week (in some cases the next day) the counterfeiter is back in business selling counterfeit goods in the same area (often at the same

store). Awards such as these constitute a perverse form of "licence": payable not in advance of the illegal activity but only long after the fact and only enforceable in rare cases. Contempt proceedings are available to enforce a judgment, but such proceedings are expensive and typically only produce a nominal fine, and the rights holder receives no compensation.

"[T]he most effective methods and procedures in the fight against infringement of IPRs are those involving criminal enforcement. ... Large-scale, commercial counterfeiting and piracy operations have traditionally looked upon civil fines as merely the cost of doing business. However, when the threat, or especially the reality, of prison is introduced into the mix, the real enforcement starts to take shape."

Kamil Idris, Director General of WIPO and a former member of the United Nations International Law Commission

Compounding the problem, civil actions are generally only economically feasible for larger companies. Undertaking a civil action against a counterfeiter is an expensive endeavour for SMEs, which often operate on razor-thin margins. As the RCMP has noted:

"While large corporations have the capability to investigate copyright violations, smaller companies do not have these resources. Law enforcement is often the only means smaller companies have to pursue counterfeiters."⁸⁴

* Under trade-mark law, there are no statutory damage awards. As such, the onus is on the owner of the legitimate product to prove an accurate quantum of the damages or profits. However, some IP rights holders, such as those in the software, movie, and music industries, may elect statutory damages under Section 38 of the Copyright Act as an alternative remedy. It should be emphasized, however, that most IP rights holders do not have copyright protection in regards to their legitimate products. For example, manufacturers of pharmaceutical, electronic, toy, clothing, automobile, airplane, and beauty supply products typically do not have any recourse to copyright remedies. More importantly, in Canada, statutory damages rarely been used (a handful of times) by copyright owners because copyright owners face the same problem trade-mark owners confront when they seek common law remedies. That is, Canadian courts have held that the civil statutory damage award (like its common law counterpart) must be proportionate to the damages suffered by the IP rights holder. As such, the copyright owner must demonstrate a quantum of statutory damages in correlation with the piracy activities. For example, even where the Federal Court found that a blatant digital pirate acted in a manner that was "totally unreasonable and reprehensible," the Court still ordered the pirate to only pay less than one percent of the maximum statutory amount of \$20,000 per work because, in part, the IP rights holder was: (i) unable to demonstrate the damages caused by the pirate activities; and, (ii) therefore, a higher award would have been disproportionate to the harm. *Telewizja Polstat S.A. v. Radiopol Inc.*, 2006 F.C. 584 (FCTD).



Without adequate police enforcement against criminal counterfeiters, the vast majority of small entrepreneurs are trapped in a Catch-22: either they institute a lawsuit against the counterfeiter (which would cripple them financially) or they don't (which cripples them financially).

Finally, it should be emphasized that many counterfeiters diversify the risk of their illegal activity by stealing from a wide variety of IP rights holders. In doing so, pirate retailers are able to ensure that, in the rare cases when they are successfully sued by a specific IP rights holder, the civil damage award only affects a very small portion of their "business." For instance, many "entertainment pirates" steal simultaneously from different music, movie, and software game companies so that – quite literally – dozens of different IP rights holders have to coordinate their civil enforcement actions in order to claim against a pirate retailer's entire "in-stock" inventory of illegal merchandise. Needless to say, this rarely happens in practice.

Consistent with our domestic reality, an international consensus has developed on the question of the relative efficacy of civil versus criminal enforcement of IP rights. *Criminal* enforcement of intellectual property rights is the preferred method for curtailing counterfeiting and piracy. As Kamil Idris, Director General of WIPO and a former member of the United Nations International Law Commission, has concluded, there is:

“...general agreement that *the most effective methods and procedures in the fight against infringement of IPRs are those involving criminal enforcement*. Criminal law imposes different standards of liability that are generally harder for the prosecution to meet than in civil cases; however, criminal penalties are more onerous. *Large-scale, commercial counterfeiting and piracy operations have traditionally looked upon civil fines as merely the cost of doing business*. However, when the threat, or especially the reality, of prison is introduced into the mix, the real enforcement starts to take shape.”⁸⁵

Likewise, the UK Department of Trade and Industry, under the direction of its Innovation Minister, has concluded that the government needs to send strong signals to curtail counterfeiting and piracy involving “lengthier sentences and higher

penalties” due to the fact that IP rights holders are simply “unable” to protect their IP rights using civil remedies and must rely on “government and enforcement agencies.”⁸⁶

Similarly, in *The Enforcement of Intellectual Property Rights*, “Criminalizing Counterfeiting and Piracy,” Justice Harms of the Supreme Court of Appeal for South Africa quotes approvingly from the U.S. Department of Justice's Attorneys Manual, *Prosecuting Intellectual Property Crimes*, which highlights a number of reasons for the criminal enforcement of counterfeiting.⁸⁷ At the most general level, these reasons include:

(i) **Counterfeiting is Theft** – A counterfeiter should no more be able to steal a company's intellectual property than they should be able to steal tangible property. In fact, IP rights holders may need additional protection because they often cannot protect their intellectual property through traditional security means.

(ii) **Counterfeiting May Harm Non-Purchasers** – Counterfeit products not only harm the IP rights holder and the immediate consumer, they also harm non-purchasing users. For example, counterfeit car brakes, pharmaceuticals, electrical cords, and batteries can cause serious harm to non-purchasers.

(iii) **Counterfeiting Undermines the Integrity of Market Rules** – Just like counterfeit money and forgery, counterfeit products undermine market integrity and weaken modern commercial systems.

(v) **Outdated and Ineffective IP Crime Legislation**

In addition to the problems discussed above, including outdated federal policies and the lack of police and prosecutorial resources necessary to combat counterfeiting, Canada's criminal legislation clearly lags in regards to key areas of IP crime, including (i) ineffective criminal provisions against trade-mark counterfeiting; (ii) inadequate legislation to stop (camcording) film piracy; (iii) ineffective laws to curtail satellite theft; and (iv) insufficient laws to address counterfeiting tools and circumvention devices.



The Lack of Effective Criminal Provisions Against Trade-mark Counterfeiting

With respect to trade-mark counterfeiting, the complete lack of effective criminal offences makes the situation in Canada extremely difficult for brand owners. No criminal provisions exist in the federal *Trade-marks Act*.

The RCMP has formally stated that the government needs to “review” the fact that there is no “criminal enforcement in the Trade-marks Act.”

Instead, criminal trade-mark provisions are included in the *Criminal Code*. As a result of criminal provisions not being in the federal *Trade-marks Act*, the RCMP and federal prosecutors generally leave the enforcement of criminal trade-mark offences to provincial enforcement authorities. Further, courts have construed the provision specifically directed against the distribution of counterfeit trade-mark products (s. 408(a)) to require intent to sell the products to purchasers who mis-

takenly believe the products are legitimate.⁸⁸ Accordingly, the provision is ineffective against distributors or retailers openly selling counterfeit products, and police are either forced to be creative or do not lay charges at all.

The extent of the problem is exemplified by the fact that federal enforcement officers often proceed under offences in the *Copyright Act* in cases that are really trade-mark counterfeiting cases. For instance, in the San Francisco Gifts case involving false UL safety stickers on faulty lights, a clear-cut case of trade-mark counterfeiting, charges were brought under the *Copyright Act* based on copyrights in the logos and packaging.

Canada’s unsophisticated approach to enforcement against trade-mark counterfeiting significantly contributes to the problems with criminal enforcement. Enacting explicit provisions in the *Trade-marks Act* (or in a federal *Anti-Counterfeiting Act*) which make it an offence to commercially deal in counterfeit branded products, whether through importation, distribution, or at the retail level - regardless of whether the purchaser knows the products are counterfeit - must be a priority.

Inadequate Laws to Stop (Camcording) Film Piracy in Canada

“Camcording” in movie theatres, the critical “first” source in creating the supply of illegally copied

films, has grown exponentially over the last few years. The recordings are made using hand-held cameras or other covert recording devices. “Professional” camcording pirates now use a variety of techniques to obtain a high-quality copy, including the use of digital cameras so small they can literally fit in the palm of the hand.

The analysis of pirated films seized throughout the world reveals that more than 90% of illicit recently released movies on DVDs can be sourced back to theatrical camcording.⁸⁹ Despite our relatively small population, Canada is now a primary source for unauthorized camcording of newly released motion pictures, which are then used worldwide in the production of illegal optical discs. Forensic watermarking on theatrically released films that identifies the theatre in which the motion picture was camcordered substantiates this fact.

- Since the first Canadian camcord was discovered in 2003, more than 190 films have been identified as camcordered from over 40 different theatres in Canada.
- Copies of these films have been downloaded from over 130 different Internet Release Groups (groups that specialize in the Internet distribution of pirated materials) and found in the form of pirated discs in over 45 different countries.
- In 2005, camcording sourced to Canadian theatres accounted for approximately 20% of the worldwide total of copies identified as originating from a theatrical camcord.⁹⁰

Camcording pirates are often directly associated with “Release Groups” who are responsible for the online distribution of illegal copies of movies, computer games, and software over the Internet. They are also linked to large-scale replicator labs located in China and elsewhere. The economic impact of these “Canadian” camcords and the highly organized groups associated with supplying the black market for pirated DVDs is very serious. Newly released films appear in street markets around the world and on the Internet just days after their domestic theatrical release. Whereas pirated copies of films made in 2003 did not appear until 65-75 days after their theatrical release, 2006 films were available within hours.⁹¹



Legislation to stop unauthorized camcording has been introduced in the U.S. at both the state and federal levels. At the federal level, the *Family Entertainment and Copyright Act* (FECA) was enacted in 2005, making camcording in a theatre a federal felony and establishing new penalties for pirating works that have not yet been released commercially. First-time violators can be sentenced up to five years for these crimes and fined up to \$250,000.

Canada, however, has failed to enact specific legislation to effectively deter camcording pirates. The enforcement policy of the RCMP and the current language of the criminal provisions of the *Copyright Act* mean that no realistic way exists to stop this critical source of pirated films and to deter individuals from camcording. Neither the RCMP nor local police ordinarily take action, even when they catch camcorders in the act. The local police refuse to monitor theatres on the basis that “copyright” is a federal enforcement mandate, and the RCMP points to the existing provisions of the *Copyright Act* as inadequate for them to respond unless evidence surfaces that the copy was being made with commercial intent.

Without law enforcement, theatre employees have no ability to detain the suspect, get a name, or take the camera. Civil action is not an available option to enforce rights, as it is impossible to proceed civilly against criminals who, when caught, will refuse to provide their name, address, or recording equipment. One of the last theatre owners who recently sought assistance from law enforcement was told that the only reason police would attend at the theatre was to arrest the owner if he tried to either confiscate the recording equipment or detain the person operating the camcorder.

Satellite Signal Theft

Satellite signal theft is a significant problem in Canada, one that has continued to grow in recent years, notwithstanding the Supreme Court of Canada’s seminal decision in 2002 confirming that it is unlawful under the *Radiocommunication Act* to deal in devices used for unauthorized decryption of encrypted satellite TV signals.⁹²

While estimates vary,⁹³ broadcast industry statistics indicate that the cost to the Canadian broadcasting system is a minimum of \$240,000,000 every year⁹⁴ – money that would otherwise have gone to support Canadian programming, Canadian infrastructure, and Canadian jobs.

The RCMP does take some action, in coordination with rights holders, against what they have termed a “social evil.”⁹⁵ But this level of enforcement is not enough. The current provisions of the *Radiocommunication Act* are inadequate to cover the spectrum of activity associated with this form of commercial piracy, do not act as a deterrent, and do not provide adequate remedies. For example, recently, “free-to-air” receivers are being sold to customers, who then obtain software from another source, allowing them to modify these receivers to decode encrypted signals in contravention of the *Radiocommunication Act*. Providers of this software escape liability as they argue that software is not “equipment or device, or any component thereof” – the language used in the current Act.

The Supreme Court decision in *Bell Express Vu v. Rex* confirmed that it is immaterial whether the equipment or device being sold is to enable the illegal reception of American satellite signals or the pirating of Canadian satellite signals. Both are prohibited under the *Radiocommunication Act*. Yet the trafficking and dealing in these devices and equipment continues to grow in criminal operations across Canada.

Even when charges are laid against dealers in illegal decoding equipment, the resulting penalties are usually nominal and pale in comparison to the huge profits they make. Offences under the *Radiocommunication Act* are punishable only on summary conviction, and the maximum penalty is rarely imposed. In order to overcome such shortcomings, legislative change must keep pace with the technological developments associated with this form of piracy.

Curtailing IP Lock Picks: Counterfeiting Tools and Circumvention Devices

Canada has become a haven for traffickers of circumvention devices, that is, devices that bypass



RECOMMENDATIONS:

the technological measures that IP rights holders use to protect their products from piracy. These devices include modification chips (“mod chips”) that allow pirated optical discs to be played on “unlocked” video game systems. Circumvention devices are the lock picks of the 21st century.

A recent newspaper article reported how common it was to purchase mod chips in a plethora of pirate video game shops in Toronto and how these mod chips were a critical link in the proliferation of pirate video games in Canada:

“Bruce and I took a trip out to the Pacific Mall to get his PlayStation modded. He was excited that he’d soon be able to play pirate games... We traipsed around to the various game stores, and Bruce would ask them questions about options and prices. They’d sometimes have price lists posted with different mod-chips, preloaded packages and a catalogue of the bootleg games they had to offer. After the third or fourth place offered the exact same price - \$130 for the mod chip installation with three games, \$110 with no games - Bruce started to grumble about honour among thieves. ... I asked him what the mod chip actually does. “Most games are just DVDs, right? So you should be able to just copy them like you do CDs. But they’ve [the game companies] got these unreproducible bad blocks ... the mod chip bypasses this bad-block-checking step.”⁹⁶”

Provisions outlawing IP circumvention devices and services are ill defined in Canadian criminal legislation, making it difficult to enforce against these “unlocking” activities. There is clearly a need for updated legislation to deal with individuals who sell electronic lock picks that allow individuals to access and distribute pirated products.

Similarly, existing civil provisions dealing with “dies” for reproducing trade-marks and “plates” for reproducing copyrighted works are outdated and ineffective to deal with digital distribution of pirated products and digital reproduction of product logos and labels.

- 4.1 Enact legislation clearly defining trade-mark “counterfeiting” as a specific criminal offence under the *Trade-marks Act*.
- 4.2 Enact legislation to make the fastest growing source of commercial video piracy – camcording in a theatre – an offence in the *Criminal Code*.
- 4.3 Amend the *Radiocommunication Act* to address the new forms of signal theft, increase criminal penalties to facilitate effective enforcement, limit importation of satellite receiving and decoding tools, and strengthen civil remedies.
- 4.4 Enact criminal legislation clearly defining offences for commercial circumvention activities (including trafficking in circumvention devices) and treat those activities as well as the commercial distribution of pirated digital works as a criminal enforcement priority; enact civil legislation that clearly make persons who distribute pirated works and persons who manufacture and/or distribute counterfeiting tools, such as mod chips, liable for contributory copyright infringement.

(vi) Lack of Effective Anti-Counterfeiting Civil Remedies

While in many instances traditional civil remedies are not suitable to curb counterfeiting, extraordinary civil remedies may be effective to deter counterfeiting in certain situations. For example, where established corporations willfully (or negligently) sell counterfeit products, civil judgments may be more effective in addressing the distribution of knockoffs.

A number of jurisdictions have established specialized civil anti-counterfeiting legislation, such that counterfeiters face the threat of heightened civil awards. The United States, for example, has specialized civil remedies available that expressly target counterfeit activities. These include:



- A presumption that the commercial success of a counterfeit product is attributable to the reputation of the legitimate product and, therefore, a sale made by the counterfeiter is presumed to be a sale lost to the owner of the legitimate product at the legitimate market price (e.g., in assessing damages, a counterfeit NIKE t-shirt sold at \$10 is presumed to be a lost sale of the legitimate NIKE t-shirt at the standard \$30 market price).⁹⁷
- High statutory damage awards up to \$1,000,000 per counterfeit mark per type of counterfeit product sold willfully⁹⁸ and up to \$150,000 per copyright work being willfully infringed.⁹⁹
- Treble damages or accounting of profits when the trade-mark counterfeiting activity is willful and imitates a registered trade-mark.¹⁰⁰

Specialized civil remedies in the U.S. have been much more effective in addressing counterfeiting than in Canada. However, it is worth emphasizing that in the U.S. (as elsewhere), it is recognized that aggressive criminal enforcement is the primary method to deter counterfeiting and that, conversely, civil actions are usually ill-equipped to curtail the black market (for all the reasons discussed previously in this report).

In addition, providing summary proceedings to minimize the cost of prosecution (and defence) assists in civil enforcement. While such proceedings are currently available with respect to copyright piracy in Canada, they have not been significantly utilized. Nevertheless, providing summary proceedings for trade-mark violations will supply IP rights holders with another useful civil tool against counterfeiting.

RECOMMENDATION:

- 5.1 Strengthen civil remedies for counterfeiting. In particular, the civil legislation should provide for: (i) statutory damage awards, including minimum “floor level” damage awards and heightened damage awards for willful or repeat offenders; (ii) specialized injunctions and seizure orders upon proof of counterfeit activities; and (iii) summary enforcement proceedings.

(vii) Disempowered Customs Officials

“Organized crime has been called the ‘dark side of globalization’, bearing in mind their facility in conducting operations of international proportion. This is particularly true of IP criminal operations since most illegal goods are being imported into Canada. When operations go international, the likelihood of organized crime involvement increases due to the size of the shipments, the sophistication and complexity of the operations and the monies required to fund them.”

RCMP

Most counterfeit goods in the Canadian market are imported.¹⁰¹ However, unlike customs authorities in other major industrialized nations, the Canada Border Services Agency (CBSA) does not seize or destroy counterfeit goods. Instead, customs officers will only *detain* (for a limited period of time) counterfeit goods *if*: (i) the IP holder has obtained a court order; or (ii) the RCMP (or local police officers) agree to seize the goods.¹⁰² Unfortunately, the information that IP rights holders must provide in order to obtain a detention order from a court is generally not available to them given the clandestine nature of counterfeit activities. Further, expensive court proceedings are required both to obtain the order and ultimately to determine the legality of the importation. In the case of criminal enforcement, as already mentioned, the RCMP and local police forces have limited resources to pursue IP crimes and to store and destroy counterfeit goods. If the RCMP or local police cannot respond when customs officers discover counterfeit goods, the goods will simply be released. Moreover, it is arguably not an offense to import products bearing counterfeit trade-marks unless there are provable copyrights associated with the knockoffs. Due to the lack of legal clarity in this area, it may only be an offence when counterfeits of trade-mark products are actually sold in Canada. *The practical result is that Canada has no effective system for enforcing IP rights at the border.*

The current border enforcement system, manned by disempowered customs officers with no mandate to stop the flow of counterfeit goods into Canada, is wholly inadequate to keep out counterfeit products from countries like China and Russia. As the *National Post* has reported:



“ [Recent newspaper articles] also revealed numerous loopholes, from lax border controls to outdated legislation, that allow counterfeiters to thrive while robbing the legitimate economy of countless jobs and billions of dollars. ... If a person declares what appears to be a load of fake Calvin Klein t-shirts, for example, Customs agents have to call the RCMP. But if the Mounties are unable to take the call, Customs have little choice but to usher the goods into Canada. They do not even have to notify the legitimate companies that a load of bogus goods has just infiltrated the market. ... Companies do have one official option at their disposal, but it is considered such a laughable unrealistic process that it is rarely invoked. If a brand owner can provide a judge with the identity of an importer, the quantity of fake goods, the estimated date of arrival in Canada, the mode of transportation, and, if possible, the serial number on the container, the company will be granted a court order that compels Customs to seize the incoming goods.¹⁰³ ”

In addition to not seizing or destroying counterfeit goods, the CBSA generally does not:

- keep statistics on the shipments of counterfeit goods that are detected;
- take counterfeit products into consideration when the CBSA conducts risk assessments or when it allocates resources; and
- have discretionary funds for storing or destroying counterfeit goods.

Even worse, Canadian customs officers in charge of ports of entry across Canada risk losing resources if they pay too much attention to the problem of counterfeit products.¹⁰⁴

It is estimated that, since 1994, only 10 to 15 detention orders have been issued by the courts to rights holders in Canada. While joint RCMP/CBSA operations have resulted in more seizures at the border, the border enforcement system remains woefully inadequate because of: (i) the lack of mandate or administrative system for CBSA officers to seize counterfeit goods; (ii) problems with Canada's IP crime legislation (including the fact that it is not an offence to import trade-mark counterfeit goods); and, (iii) lack of enforcement resources to combat IP crime in Canada.

This is not to suggest that Canada's customs officers are not anxious to do something about the flood of counterfeit goods. They are no happier about the deluge of counterfeit goods than IP rights holders. But their hands are tied. As Michel Proulx, a spokesperson for the CBSA, explained to the *National Post*:

“ ...border agents do everything they can within the realm of current laws. “We have to follow the rules the way they are written,” he said yesterday. “We’re doing our job. We’re intercepting it. We’re following the protocol. But if things die off at the end of the line, you can’t really hold us accountable for that.”¹⁰⁵ ”

In contrast to Canada, the U.S. has implemented a system that allows IP rights holders to record their trademarks and copyrights with customs authorities and encourages customs officers to actively monitor the importation of infringing goods (see the International Best Practices section). Not surprisingly, the U.S. system has resulted in the seizure of tens of thousands of counterfeit shipments from 1998 to 2005.¹⁰⁶

RECOMMENDATIONS:

- 6.1 Implement legislation clearly prohibiting the importation of counterfeit goods.
- 6.2 Provide the CBSA with the express authority to target, detain, seize, and destroy counterfeit goods on its own initiative and to implement policies promoting the detection of such goods, such as mandatory reporting of brand information with shipments.
- 6.3 Formalize intelligence sharing and investigative enforcement management through cooperation between the RCMP and CBSA.
- 6.4 Make provisions for the disclosure of information and the provision of samples to IP rights holders for the purposes of determining whether detained goods are counterfeit, and enable IP rights holders to exercise civil remedies.
- 6.5 Introduce administrative fines for the importation or exportation of counterfeit goods. The fines should be set sufficiently high to act as an effective deterrent.
- 6.6 Adopt a recordation system whereby IP rights holders may record their rights with CBSA and highlight “high-risk” products that are known or likely counterfeit targets.



(viii) Troubling Ethics: The Culture of Piracy in Canada

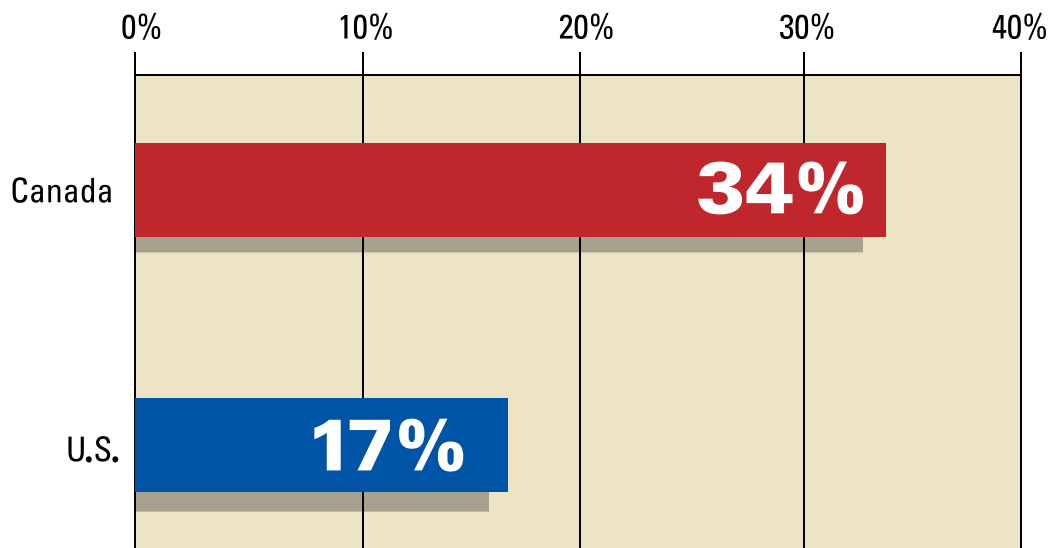
Enforcing effective laws against counterfeiting and piracy is critical to an effective IP environment. However, if citizens do not believe that stealing intellectual property is wrong – if retailers openly offer counterfeit goods for sale and consumers routinely violate IP rights without any sense of shame or guilt – then, in addition to the damaging impact discussed above, the supply of creativity and innovation will be impaired. Individuals must understand that the theft of intellectual property is not acceptable.¹⁰⁷ In this regard, social capital – a community’s normative substratum involving reciprocal respect and trust for all community members and their respective property – is increasingly seen as a critical determinant of a well-functioning economy.¹⁰⁸ Social capital involves the non-legal *informal* norms of society, how members of a community act when they believe the police aren’t watching them. As the Director General of WIPO has stated, the informal respect for intellectual property rights (as well as

their formal enforcement) is a critical part of an innovative culture:

“Building public awareness of the role of IP is key to fostering a broad understanding of, and respect for, it and the system that promotes and protects it. ... Enforcement is a multi-layered concept. It cannot be approached only through police, Customs, and courts. Without political will, the appropriate legislative framework, and an IP culture, there can be no enforcement, and ultimately, the country and the economy will suffer.”¹⁰⁹

While the majority of Canadians believe that IP is essential for Canada’s prosperity and that strong laws are required to protect IP, piracy is increasingly becoming morally acceptable in Canadian culture, particularly among youth (the 15–24 year-old age group). In recent years, numerous surveys of the Canadian population have come to a disconcerting conclusion: when Canadians are offered the “great bargain” of inexpensive pirated goods, a significant portion, most of them young, believe that stealing IP is not wrong.

PERCENTAGE OF GAMERS WITH COPIED OR PIRATED PRODUCT





Statistics highlighting Canada's culture of piracy are alarming:

- A poll indicated that Canadians do not view the piracy of software, movies, and music as seriously as either stealing office supplies or keeping incorrect change from store clerks.¹¹⁰
- Software piracy in Canada is significantly higher (over a third of the Canadian population has stolen software) than those of its major trading partners, including the United States and the United Kingdom.¹¹¹
- Approximately one third of Canadian gamers (34%) admit to having acquired a video game that was copied or pirated. This percentage is *twice* the level of the United States (17%).¹¹²

Attacking pirates does not necessarily address the root problem. Pirates can only thrive in a culture where citizens view the acquisition of counterfeit goods as acceptable. In Canada, consumers often know exactly what they are doing when they buy counterfeit goods. They know it is theft – but it is also a good “bargain.”

A large segment of our society displays a phenomenally cavalier attitude toward IP rights. This situation was captured in a recent Toronto newspaper article in which the reporter describes taking a young teen to the Pacific Mall to buy pirated video games. In the words of the teen, pirated games are “more fun” and “finding ways to get them rather than just going to Walmart – becomes a game in itself.” The reporter not only escorts the teen among the plethora of pirate retailers at the mall to find the best pirated games for the best price but actually *reports on the entire process*. In the article's conclusion, the reporter notes that the criminals should have “used a little more discretion”

because a recent police raid curtailed some of their overt counterfeiting activities and then laments that it would be “a while” before he and his charge would return to the mall.¹¹³

In light of the foregoing, and in line with international best practices as highlighted in the next section of this report, the government should develop comprehensive programs with industry to build awareness of the importance of IP among the public and key stakeholders.

RECOMMENDATION:

- 7.1 Establish a federal Intellectual Property Coordination Council consisting of senior civil servants and IP rights holders whose key objectives would include: (i) Creating and implementing educational programs, with emphasis on Canadian youth, that teach the rationale for and importance of intellectual property; (ii) Communicating with IP right holders to ensure that their IP needs are being met by the current application of the laws; (iii) Developing broad-based marketplace framework policies that focus on sustaining and growing the creation and exploitation of IP in Canada; (iv) Ensuring that all government departments recognize the importance of IP in the creation and development of strategies designed to make Canada more competitive and innovative; and (v) Creating and implementing specialized enforcement educational programs, e.g., educating police, customs officers, prosecutors, and the judiciary to assist in sophisticated and efficient IP enforcement and adjudication.



FUELING INNOVATION AND PROSPERITY:
**THE NEED FOR
MARKETPLACE INTEGRITY**





PART THREE: FUELING INNOVATION AND PROSPERITY – THE NEED FOR MARKETPLACE INTEGRITY

(i) The Economic Importance of Intellectual Property

The rationale for IP protection extends far beyond curbing criminal activity and protecting industries and individuals from injury. By providing a marketplace where investments in innovations, creations, and goodwill may be recovered, IP protection fosters innovation along with broad-based economic growth, job creation, and prosperity. In modern, developed nations like Canada, where services and innovation have become key economic drivers, this has never been more important.

In 2002, WIPO reported that intellectual property represented 45 to 75 percent of the overall corporate value of the Fortune 500's largest companies.¹¹⁴ While every company is increasingly reliant on IP rights, the highest growth areas of the global economy are IP-based industries. For example, the creative-copyright industries (e.g., publishing, film, entertainment software) have been rapidly expanding both in terms of revenue generation and employment. In 2000, the creative industries in the EU contributed more than 1.2 trillion euros to the EU economy and employed approximately 5.2 million people.¹¹⁵ Similarly, in 2000, the creative industries in Canada were expanding at twice the rate of the Canadian economy overall, generating approximately \$66 billion in revenue, and represented the third most important contributor to the country's economic growth.¹¹⁶ The Gowers Review recently presented similar conclusions regarding the UK economy.¹¹⁷

(ii) Nurturing Intellectual Property: The Importance of Demand

At the most general level, government plays two critical roles in assisting the growth of intellectual property:

- Promoting the Supply of Intellectual Property – by fostering the creation of intangible commodities by artists and inventors.

- Promoting the Demand for Intellectual Property – by ensuring that intangible commodities can compete in a well-functioning marketplace and by assisting artists and inventors in generating revenue from their creations.

In terms of generating revenues from IP, both the supply and demand sides need to be properly cultivated.

On the supply side, the focus of government activities is usually on producing skilled workers and investing in high-quality research and development facilities to support innovation. The federal and provincial governments have done relatively well in this regard. For instance, Canada is a world leader in digital broadband infrastructure, digital wireline networks, high-speed Internet, and research universities.¹¹⁸ Ottawa's flagship infrastructure program, the Canada Foundation for Innovation (CFI), established in 1997, has a \$3.7 billion endowment used to support infrastructure costs, such as funding basic research facilities.¹¹⁹ In terms of technical workers, Ontario has more science and engineering graduates *per capita* than the United States.¹²⁰ Likewise, Quebec has a pool of researchers equivalent to that of the U.S. and Ontario.¹²¹ U.S. venture capital firms have stated that they are attracted to investing in Canada because, among other things, of its skilled workforce and technological base.¹²²

On the demand side, the focus is on the commercialization of a conceptual product, that is, fostering consumer demand for the purchase of IP-based goods. Both the federal and provincial governments are spending far less on this side of the equation. For example, the four Ontario Centres of Excellence established by the provincial government to help researchers transfer ideas and prototypes from the drawing board to the store shelf have a combined annual funding of about \$30 million, compared to about \$2.4 billion invested in Ontario's R&D infrastructure.¹²³ Similarly, the government has dedicated limited resources to IP education and product marketing programs. More generally, data from the World Economic Forum (WEF) suggests that Canada trails far behind the



U.S. on the demand side of the innovation economy, specifically in terms of:

- Intellectual property protection;
- Extent of branding;
- Extent of marketing; and
- Laws relating to information and communication technology.¹²⁴

Given the foregoing, it is not surprising that the Institute for Competitiveness & Prosperity has concluded that Canada (and Ontario) have overemphasized the supply side and underemphasized the demand side, which has created inefficient outcomes and, to some extent, compromised Canada's innovative capacity:

“[There is an] overemphasis on the hard sciences and traditional R&D. In effect, the policies indicate a belief that the real challenge we have in Ontario and Canada is in having enough technical people, technology spending, R&D tax incentives, and the like. Our research indicates that these factors are only part of the challenge and as long as the model in the minds of policy makers continues to be narrow and incomplete, our province will make little progress on innovation and commercialization. ... If we really want to solve the commercialization challenge, we must create higher demand for innovation. *To do this, we must look at the competitive pressures that face our leading companies and what can be done to encourage businesses to be more competitive in the marketplace.*”¹²⁵

Similarly, in Quebec's 2005 Economic Development Strategy, the provincial government noted that the province's innovation strengths include: (i) state-of-the-art research infrastructure; (ii) world-calibre researchers, technical workers, and highly educated creative individuals; and (iii) competitive R&D tax incentives. However, similar to other provinces' experiences, the Quebec government found “challenges to be met” in the coming years in order for Quebec to become a focal point for global innovation, four of which were:

- “Create in Quebec a genuine culture of innovation;”
- Preserve a pool of top-notch researchers;
- “Encourage the private sector to engage more extensively in research;” and
- “Successfully make the transition from research to innovation.”¹²⁶

(iii) The Adequate Enforcement of Intellectual Property Rights: A Necessary Pre-condition to Innovation and Prosperity

“[L]egitimate industries cannot “compete” with pirates and counterfeiters on the price of products, since illegal operators are saved the research, development, and marketing costs of the legitimate sector. Pirates and counterfeiters simply take a free ride on all the effort, creative work, and investment of others. These illegal activities lead to serious distortions in the marketplace.”

International Chamber of Commerce

A key element in nurturing the commercialization of IP is the integrity of the marketplace for conceptual goods. Competitiveness and prosperity are dampened by the presence of a robust black market. The ability of an IP rights holder to generate revenues is seriously impaired when counterfeiters are able to sell knockoff goods at substantially reduced prices that do not cover the legitimate product's development, marketing, and distribution costs. Businesses will tend to under-invest if they believe that their investment is subject to theft of their reputation, innovations, and creations.

The Director General of WIPO has expressed that:

“It is common knowledge that investment in R&D is quite an expensive undertaking. Investors will under-invest in such activities if they are not assured of reaping the lion's share of the resulting benefits. It can be convincingly argued that IP protection plays a catalytic role in stimulating R&D. Furthermore, protection of intellectual property has the potential to contribute positively to a country's efforts to attract FDI, increase foreign trade, and provide the necessary conditions for transfer of technology.”¹²⁷

In Russia, the software industry (one of the prime creators of jobs and revenues in an information economy)



employs a mere 8,000 workers, compared to 640,000 workers in the United States. A primary reason for this is the rampant Russian black market for pirated software. As a direct result of the proliferation of knockoffs, Russian software firms are unable to “produce sufficient returns to justify investing in new products, or in research and development to improve existing ones.”¹²⁸ Conversely, in the United States, Alan Greenspan, former Chairman of the U.S. Federal Reserve, has stated that the U.S. continues to support the protection of intellectual property because:

“The fraction of the total output of [the U.S.] economy that is essentially conceptual rather than physical has been rising. The trend has, of necessity, shifted the asset valuation from physical property to intellectual property and to the legal rights inherent in intellectual property.”¹²⁹

The WEF Global Competitiveness Report established a direct correlation between the protection of IP goods and national competitiveness. In 2004, the 20 countries with the most stringent intellectual property protection were classed among the top 27 in terms of growth and competitiveness. Conversely, the 20 countries perceived as having the weakest intellectual property protection were ranked among the bottom 36.¹³⁰

intellectual property were among the more pressing problems facing business today. The poll found that 83 percent either agreed or strongly agreed.¹³⁴ Another study, conducted by Edwin Mansfield, former Director of the University of Pennsylvania’s Center for Economics and Technology, found that inter-jurisdictional investment and the amount and quality of technology transfer by Germany, Japan, and the United States seemed to be affected significantly by the recipient country’s level of IP protection.¹³⁵ Similarly, WIPO has found that, in the area of venture capital development, unless IP protection is perceived to be adequate in a given jurisdiction, individual inventors and small companies tend not to disclose their innovations during venture partnership negotiations for fear of losing control or ownership.¹³⁶ Needless to say, this undermines the efficient allocation of venture capital, a critical driving force behind the commercialization of innovative products.

83% of corporate and academic economists agreed or strongly agreed that counterfeit products and the theft of intellectual property were among the more pressing problems facing businesses today.

International Chamber of Commerce

“It is common knowledge that investment in R&D is quite an expensive undertaking. Investors will under-invest in such activities if they are not assured of reaping the lion’s share of the resulting benefits. It can be convincingly argued that IP protection plays a catalytic role in stimulating R&D. Furthermore, protection of intellectual property has the potential to contribute positively to a country’s efforts to attract FDI, increase foreign trade, and provide the necessary conditions for transfer of technology.”¹³¹

Kamil Idris, Director General of WIPO

Numerous surveys support the report’s findings. In a survey of 377 Brazilian firms by the Brazilian Ministry of Industrial Development and Commerce and the American Chamber of Commerce, 80 percent of the firms indicated they would invest more in R&D and human capital if better legal protection were available.¹³² Likewise, the International Chamber of Commerce and the Ifo Institute¹³³ surveyed 1,100 corporate and academic economists and asked whether counterfeit products and the theft of

Given these findings, it is not surprising that economists for the World Bank have concluded that the robust enforcement of intellectual property rights is a *necessary pre-condition* for innovation and prosperity. In summarizing recent economic data, the authors find:

“In an environment of weak protection, it is difficult also to foster attitudes of creativity, inventing, and risk taking. Rather, the economy stagnates in a



*mode favouring copying and counterfeiting. ... [Inadequate IP enforcement] deters the entry of new firms, which would not undertake the significant costs of investing in quality maintenance and reputation without such protection. It diminishes the prospects of exploiting scale economies, particularly to the extent that protection varies across regional markets. It prevents entry into export markets of reputation products. Instead, weak protection favours the production of low-quality goods in small production runs and imitative activities. Although this strategy may yield short-run profits, it becomes a significant restriction on growth over time. Moreover, weak protection forces legitimate firms to produce relatively low-quality products to be competitive with infringers. ... Creation of new films, music, and software is expensive and little worth the investment by local entrepreneurs if their products will be copied. Accordingly, lower-quality copies may be widely and cheaply available, but society's long-run cultural and economic development is stunted.*¹³⁷”

The International Chamber of Commerce (ICC) comes to a similar conclusion, finding that:

“legitimate industries cannot “compete” with pirates and counterfeiters on the price of products, since illegal operators are saved the research, development, and marketing costs of the legitimate sector. Pirates and counterfeiters simply take a free ride on all the effort, creative work, and investment of others. These illegal activities lead to serious distortions in the marketplace.”¹³⁸”

After citing numerous studies in support of this conclusion, the ICC then makes a number of specific recommendations. In particular, governments need to take action against counterfeiting and piracy by:

- Taking proactive measures to strengthen enforcement of existing laws to ensure, at the very minimum, existing sanctions are effectively applied;
- Clearly designating the bodies responsible for intellectual property enforcement and allocating sufficient financial and human resources to allow them to be effective; and

- Educating local communities, businesses, and the public on the potential benefits of the intellectual property system.¹³⁹

WIPO has recommended a number of areas in which governments are critical in fostering creativity and innovation, two of which are:

- Ensuring that police, prosecutors, and judges, as well as other public agencies and institutions, are “sensitive” to the value of intellectual property rights and that these agencies are properly supported by the government to “encourage creativity and innovation;” and
- Assisting in the education of the public regarding the “benefits of purchasing legitimate goods and services,” thereby boosting local knowledge-based “industries and economies.”¹⁴⁰

Canada clearly needs to improve its domestic IP enforcement and education to advance the competitiveness of our innovators, creators, and industry generally.

(iv) Global Competition: Strong Enforcement of IP Rights is Critical Fuel for the Race to the Top

As the preceding section highlights, numerous academics, policy advisors, economists, and international organizations have concluded that adequate enforcement of IP rights is a critical element in cultivating an innovative socio-economy. In terms of global competitiveness, strong IP enforcement is key. The former Executive Director of the World Bank, Moises Naim, has written:

“The battle over intellectual property has become an important international conflict. The countries where most intellectual property owners reside – and where brand value generates the most revenue – argue that guaranteeing these ownership rights is an indispensable requirement for the continuous progress of human kind. Without guaranteeing ownership rights – and income – to the creators of new, valuable ideas, the incentives for inventors will disappear and innovation will



dwindle. It's a logical argument, and even countries that are short of inventors, patent holders, and corporations that own major brands understand the principle.¹⁴¹”

Canada's peers have expressly recognized that their capacity for innovation is inextricably linked to a strong IP enforcement system. In the last decade, countries including the United Kingdom and the United States have shifted additional focus and resources to protecting conceptual products and have sought to strategically improve their IP enforcement systems.

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Without guaranteeing ownership rights – and income – to the creators of new, valuable ideas, the incentives for inventors will disappear and innovation will dwindle. It's a logical argument, and even countries that are short of inventors, patent holders, and corporations that own major brands understand the principle.”¹⁴²

Moises Naim, former Executive Director of the World Bank

For example, in the U.S., the National Intellectual Property Law Enforcement Coordination Council (NIPLECC), consisting of members of the Justice Department, the Department of State, the Department of Homeland Security, the Office of the United States Trade Representative, and the Department of Commerce, as well as IP rights holders, oversees a coordinated enforcement strategy. The importance of IP enforcement in promoting economic prosperity was highlighted in NIPLECC's recent report to the President:

“The theft of American intellectual property strikes at the heart of one of our greatest comparative advantages – our innovative capacity. Through the

applied talents of American inventors, researchers, entrepreneurs, artists, and workers, we have developed the most dynamic and sophisticated economy the world has ever seen. The world is a much better place due to these efforts. We have delivered life-saving drugs and products that make people more productive. We have developed entirely new industries and set loose the imaginative powers of entrepreneurs everywhere. And, we set trends and market best-of-class products to nearly every country in the world. ... At the same time, the task of protecting intellectual property has never been more challenging. ... Technology has made it easier

to manufacture and distribute counterfeit and pirated products – creating a global illicit market competing with genuine products – and has complicated the ability to detect and take action against violators. High profits and low risk have attracted organized criminal networks. And public awareness of the issues and consequences behind intellectual property theft often lags behind. ... *A thriving, diversified, and competitive economy must protect its intellectual property rights.*¹⁴³”

NIPLECC has coordinated various government departments and agencies to:

- Establish concrete objectives and priorities to coordinate IP education, training, and capacity-building activities;
- Strengthen laws and penalties related to intellectual property rights; and
- Ensure that IP-based industries, especially SMEs within these industries, have the best IP protection resources and assistance available. In this regard, it ensures that enforcement efforts and activities are well coordinated with IP industry activities and their priorities.



National Intellectual Law Enforcement Coordination Council					
Department of Justice The Department of Justice is the lead U.S. law enforcement agency. It enforces a variety of federal IP statutes and engages with law enforcement counterparts around the world.	Department of Commerce The Department of Commerce seeks to foster, promote, and develop foreign and domestic commerce through economic development, technological advancement, and international trade.	Department of State The Department of State seeks to create a more secure, democratic, and prosperous world for the benefit of the American people and the international community.	Department of Homeland Security The Department of Homeland Security is responsible for securing borders while also facilitating the flow of legitimate trade and travel.	U.S. Trade Representative USTR is responsible for developing and coordinating U.S. international trade, commodity, and direct investment policy.	U.S. Coordinator for International Intellectual Property Enforcement The Coordinator's office works to leverage the capabilities and resources of the U.S. government to promote effective enforcement of intellectual property rights.
NIPLECC Member <ul style="list-style-type: none"> Assistant Attorney General, Criminal Division 	NIPLECC Member <ul style="list-style-type: none"> Under Secretary for IP Under Secretary for International Trade 	NIPLECC Member <ul style="list-style-type: none"> Under Secretary for Economic, Business, and Agricultural Affairs 	NIPLECC Member <ul style="list-style-type: none"> Commissioner U.S. Customs and Border Protection Assistant Secretary for Immigration and Customs 	NIPLECC Member <ul style="list-style-type: none"> Deputy U.S. Trade Rep. 	NIPLECC Member <ul style="list-style-type: none"> U.S. Coordinator for International Intellectual Property Enforcement

Very senior civil servants are attached to the NIPLECC as the chart on this page illustrates.

In the United Kingdom, the government has similarly established the Intellectual Property Crime Group (IPCG) under the auspices of the Innovation Minister, Lord Sainsbury of Turville. The IPCG was initiated by the Department for Trade and Industry because of productivity and competitiveness concerns. As the Innovation Minister highlighted in a recent speech, the establishment of an integrated government task force acting as the strategic heart of IP enforcement and education was viewed as a critical edifice underlying prosperity:

“IP rights are the means by which creators and innovators have the incentive to produce. The problem is that IP crime can undermine or even completely negate these incentives. ... [A] strong system of rights and strong institutions are of no use if there is not a proper system of enforcement. ... The production of counterfeit goods is not a small, one-man-band operation, but an illegal

large-scale manufacturing process. And the criminals are not content to stop at this. We have evidence to show that they are also involved with illegal people trafficking and the sale of illegal drugs. Many people may feel they are getting a bargain when they buy a fake football shirt for their children. What they should realize is that their hard-earned cash may be used to fund the sale of illegal drugs to their children at the school gates. Profits from the sale of counterfeit goods are also being used to fund other illegal activities. ... We need to be more imaginative in finding solutions to IP crime. What is also quite clear is that we will only achieve our goal through collaboration between enforcement agencies, government departments, and industry. ... In a knowledge economy, Intellectual Property Rights are of increasing importance to Government. There is, however, little wrong with our system of Intellectual Property Rights. But there is a need for much better enforcement, and the Government is determined to dramatically reduce IP crime and protect the rights of IP rights holders.”¹⁴⁴



“IP rights are the means by which creators and innovators have the incentive to produce. The problem is that IP crime can undermine or even completely negate these incentives. ... [A] strong system of rights and strong institutions are of no use if there is not a proper system of enforcement.”

UK Innovation Minister, Lord Sainsbury of Turville

The IPCG has implemented a number of key initiatives in the UK, including:

- Establishing a Customs Intellectual Property Intelligence Unit to gather and disseminate intelligence about incoming consignments of counterfeit goods in all relevant ports, airports, and postal depots;
- Assisting the coordination and strategy of police raids on counterfeit hot spots;
- Educating the public on the harm caused by counterfeit products; and
- Gathering evidence and preparing policy reports regarding the identification of counterfeit trends, the assessment of the magnitude of the harm caused by counterfeit goods, and improving IP knowledge and identifying intelligence gaps.

The IPCG has established several priorities, including:

- Ensuring that IP rights are “translated into effective enforcement on the ground;”
- Building on “recent initiatives to convince the public that counterfeiting and piracy is not a victimless crime;” and
- Better coordinating the efforts of industry, government, and law enforcement.¹⁴⁶

The fact that Canada’s competitors have greatly increased their IP enforcement activities is not surprising given the proliferation of counterfeit activities over the past several years. The combination of technological advances and globalization have made it much easier and cheaper to illegally reproduce and disseminate knockoffs. In Canada, the factors driving the production and consumption of counterfeit goods have created a “perfect storm” situation, whereby a number of economic drivers are reinforcing each other to spur the growth of the IP black market. These drivers include profitability of IP crime, available and readily concealed piracy and counterfeiting tools, deteriorating societal values, and the low risk of adverse consequences. All the socio-economic factors point to the conclusion that unless things change soon, especially with respect to adequately funded enforcement and education policies, the black market will continue to grow and act as a significant drag on Canada’s capacity to innovate and prosper.



PIRATA: TO FORA! (PIRATES OUT!)

A CASE STUDY REGARDING THE BRAZILIAN TURNAROUND

According to the Union of Brazilian IRS Auditors, Brazil was plagued by a 28 billion dollar black market at the turn of the 21st century. To combat this rising tide of counterfeit goods, the Brazilian government created the National Anti-Piracy Council (CNCP), housed in the Federal Ministry of Justice. CNCP gave equal weight to public and private sector representatives from the following bodies:

Government Ministries	Private Sector
Justice and Federal Police Finance and Revenue External Relations Science and Technology Culture Development, Industry and Foreign Trade Labour and Employment	Audiovisual industry association (film) Phonograms association (music) Software associations Publishing association Tobacco, beverages and fuel association Brazilian Intellectual Property Association National Confederation of Industry

The CNCP established a National Plan for Combating Piracy, culminating in a 99 point plan with short, medium and long term objectives.

As part of the CNCP action plan, three key initiatives were launched:

(1) Enforcement task forces specifically targeting counterfeiters – In 2005, 350 police operations were launched and 250 arrests were made against counterfeiters. In the raids, tens of millions of dollars worth of counterfeit merchandise were seized, including CDs, DVDs, clothing, liquor, and cigarettes. To cite the positive effect on the music industry alone, between January and November of 2005, over 26 million pirated CDs were seized.

(2) An education campaign aimed at informing consumers of the negative economic and social consequences of piracy – In addition to the enforcement campaign, the Brazilian government implemented an extensive educational campaign underscoring the negative effects of the black market. Key facts and statistics were highlighted to consumers. For example, statistics showed that nearly 2 million jobs were lost to Brazilian workers each

year because of piracy. Another significant theme in the educational campaign was the link between piracy and criminal organizations. For example, in a campaign launched in March 2006, the commercial showed a

counterfeiter shouting, “buy this pirated product for a lot less and as a token take violence, evasion, drug trafficking, crime...all for free!”

(3) Enhanced border enforcement – The government invested significant resources in shutting down the importation/exportation of counterfeit goods, particularly at key Brazilian ports of entry. The results were dramatic. In one operation, 204 million counterfeited surgical gloves, that contravened health and safety standards, were seized. Similarly, in 2005, 33 million counterfeit DVDs and CDs were seized at Brazil’s borders.

As a result of these three initiatives, and the ongoing co-operation between high level government officials and key IP stake holders, counterfeiting has been significantly curbed in Brazil in a very short time.¹⁴⁶



INTERNATIONAL
BEST PRACTICES





PART FOUR: INTERNATIONAL BEST PRACTICES

(i) United States

The United States has one of the most effective IPR enforcement systems in the world. The Department of Justice, Federal Bureau of Investigation (FBI), and the U.S. Customs Service (currently Customs and Border Protection, or CBP) have made counterfeiting and piracy a “law enforcement priority.”¹⁴⁷

Congress instituted a tri-partite integrated enforcement system designed to effectively control and limit counterfeiting:

- *Strong Border Enforcement* – Customs officers are authorized to seize and destroy counterfeit goods as well as fine counterfeit importers.
- *Deterrent Criminal Penalties and Civil Remedies* – Criminal penalties and civil remedies that make counterfeiting unprofitable.
- *Active and Sufficiently Funded Law Enforcement* – Law enforcement agencies, the Department of Justice, and other federal agencies receive adequate resources allowing them to prosecute counterfeiters to the full extent of the law.

Strong Border Enforcement

Many of the counterfeit products in North America are manufactured abroad and imported through sophisticated international criminal supply chains. Consequently, the United States has placed a great deal of emphasis on enhanced border enforcement. In the process of protecting its borders from illicit trade, CBP has established: (i) a recordation system; (ii) a policy of mandatory seizure, forfeiture, and destruction of counterfeits; (iii) fines for the importation of counterfeit goods; and (iv) an IP rights holder disclosure system.

Results include:

- From 1998 to 2004, U.S. customs officers seized more than \$600 million worth of counterfeit goods.¹⁴⁸

- From 2002 to 2005, U.S. customs officers charged more than 500 individuals with IP violations.¹⁴⁹

- From 1998 to 2005, U.S. customs officers seized more than 37,000 counterfeit shipments.

Recordation System

In the U.S., IP rights holders are able to record their registered trade-marks or registered copyrights with CBP. Once these IP rights are recorded, customs officers actively monitor imports in order to prevent the importation of counterfeit or pirated goods. IP owners may also provide information to assist customs officers in detecting and identifying counterfeit or pirated goods, such as the names of suspected importers as well as the *prima facie* signs of particular types of counterfeit and pirated goods.¹⁵⁰

Seizure, Forfeiture, and Destruction

Where a registered trade-mark is recorded with CBP, customs officers are authorized to detain and seize the counterfeit merchandise and notify the trade-mark owner.¹⁵¹ Absent written consent from the trade-mark owner, the counterfeit goods are forfeited. After forfeiture, the normal procedure is to destroy the counterfeit goods.¹⁵²

Likewise, customs officers are also authorized to prevent the importation of pirated works if the copyright is recorded.¹⁵³ Specifically, if a copyright is recorded with CBP and the customs officer determines that the imported good is clearly pirated, the official will seize the imported good and institute forfeiture proceedings.¹⁵⁴ Goods determined to be pirated are destroyed.¹⁵⁵

While the policy of CBP is to focus its enforcement efforts on recorded trade-marks and copyrights, customs officers are also authorized to detain or seize counterfeit or pirated goods even where the corresponding trade-marks or copyrights are not recorded with CBP. In other words, customs officers in the United States may also take *ex officio* action without a specific recordation of IP rights.



Fines

When trade-mark counterfeit goods are seized, customs officers may impose a civil fine on any person who directed or assisted with the importation of the unlawful goods.¹⁵⁶ For the first seizure, the fine cannot be more than the domestic value of the legitimate product. For subsequent violations, the fine may be up to twice that amount.¹⁵⁷

Disclosure of Information and Provision of Samples

In circumstances where counterfeit goods are seized, CBP may provide a sample to the IP rights holder for testing purposes, and must disclose the following information:

- Date of importation;
- Port of entry;
- Description of merchandise;
- Quantity;
- Name and address of manufacturer;
- Name and address of exporter;
- Name and address of importer; and
- Country of origin.¹⁵⁸

More limited information, as well as samples, may also be provided when goods are detained and before they are seized.

By providing such information to the IP rights holder, CBP is able to verify the illegal nature of the product and red-flag possible safety hazards. Conversely, the IP rights holder is provided with information regarding the source and quantity of the counterfeit goods. Armed with such information, the IP rights holder is able to more fully assess the problem, allocate proper resources, and consider initiating a civil action in either the U.S. or the country of origin.

Deterrent Criminal Penalties and Civil Remedies

In order to stem the tide of counterfeit and pirated goods flooding the U.S. market, Congress enacted an integrated system of criminal penalties for these goods, of which the two most prominent pillars are: (i) criminal infringement of

copyright piracy and trade-mark counterfeiting,¹⁵⁹ and (ii) trafficking in trade-mark counterfeit goods and services.¹⁶⁰ The U.S. federal government has also established significant civil remedies for counterfeiting and piracy.

Stipulated Criminal Penalties for Trade-mark Counterfeiting and Copyright Piracy

While Canada has criminal penalties for copyright infringement and fraudulent trade-mark use, in the vast majority of cases, Canadian prosecutors have not sought, and adjudicators have not granted, sufficient penalties to deter pirates and counterfeiters from the highly profitable business of selling knock-offs. Having faced a similar problem in the United States, Congress established Federal Sentencing Guidelines.¹⁶¹

Trafficking in Counterfeit Goods and Services

Unlike Canada, which has outdated and ineffective criminal penalties for trade-mark counterfeiting, the U.S. Congress has expressly made trade-mark counterfeiting a federal crime with high maximum fines and long jail terms.¹⁶² In particular, the penalties include:

- First Offence – An individual may be fined up to \$2,000,000, or imprisoned up to 10 years, or both; and a person other than an individual (e.g., a corporation) may be fined up to \$5,000,000.
- Second Offence – An individual may be fined up to \$5,000,000, or imprisoned up to 20 years, or both; and a person other than an individual may be fined up to \$15,000,000.¹⁶³

In terms of criminal trade-mark counterfeiting, it has been held by the courts that a counterfeit good does *not* have to deceive the immediate purchaser. Instead, it is sufficient if a third-party observer is confused after the transaction took place.¹⁶⁴ For example, in one U.S. case, despite the argument by a counterfeiter that the public knew he was selling fake ROLEX watches, the United States Court of Appeals for the Eighth Circuit affirmed a conviction of four concurrent three-year terms of imprisonment for knowingly selling counterfeit watches to an undercover agent.¹⁶⁵



Forfeiture of Illegal Gains

In 1996, the U.S. Congress made the trafficking in trade-mark counterfeit goods a “predicate act,” thereby triggering the Racketeer Influenced and Corrupt Organizations Act (RICO). This allows law enforcement officials to seize any non-monetary assets of counterfeiters, such as buildings, vehicles, and equipment.¹⁶⁶

Civil Remedies

In addition to statutory damages for copyright infringement, the U.S. government has enacted statutory damages in trade-mark counterfeiting cases. An IP rights holder may elect statutory damages in circumstances where damages or accounting of profits are difficult to prove. If the trade-mark counterfeiting is not willful, statutory damages range from \$500 to \$100,000 per counterfeit mark per good or service.¹⁶⁷ If the conduct is willful, damages may be up to \$1,000,000 per counterfeit mark per good or service.¹⁶⁸

As well as statutory damages, IP rights holders are able to seek treble damages in circumstances where the trade-mark counterfeiter acted willfully.¹⁶⁹

Active and Sufficiently Funded Law Enforcement

In 2004, the U.S. government implemented the inter-agency initiative STOP (Strategy Targeting Organized Piracy), under the auspices of NIPLECC. As part of the STOP initiative, the U.S. federal government has specifically allocated prosecutors, customs officers, and law enforcement agents to: (i) focus entirely on the criminal prosecutions of intellectual property rights; and (ii) guide, coordinate, and assist the efforts of other law enforcement officers in attacking IP crime.¹⁷⁰

Under STOP, the Department of Justice has a highly specialized team of 35 attorneys devoted exclusively to computer crime and intellectual property offences. These prosecutors charged 350 defendants in 2005 for IP crimes.¹⁷¹

Examples of recent U.S. sentences include:

- A repeat offender who was caught secretly recording a number of motion pictures at private

screenings to make pirated DVDs and who fled custody when arrested was sentenced to seven years in federal prison.¹⁷²

- In “Operation End Zone,” enforcement officers seized more than \$5 million worth of counterfeit NFL goods in the days leading up to the Superbowl.¹⁷³
- Mark Kolowich, leader of one of the largest Internet counterfeit pharmaceutical networks, was sentenced in federal court to over four years in jail.¹⁷⁴
- 17 individuals were charged for participating in an international counterfeiting operation that was believed to have smuggled roughly \$400 million worth of counterfeit handbags, luggage, and apparel into the U.S. In the investigation, 12 bank accounts used by the counterfeiters were frozen and the assets seized.¹⁷⁵

As part of the STOP initiative and pursuant to federal legislation, the U.S. Attorney General’s office must submit a substantive annual report on its efforts to control and limit counterfeit goods. Specifically, the report must include:

- The number of open investigations;
- The number of cases referred by CBP;
- The number of cases referred by other agencies or sources; and
- The number and outcome, including settlements, sentences, recoveries, and penalties, of all prosecutions involving counterfeit goods.¹⁷⁶

(ii) United Kingdom

Like the United States, the United Kingdom has become increasingly dependent on intellectual property as a critical element of its economic prosperity. At the same time, organized crime in the UK (as in the rest of the world) has increased counterfeiting and piracy operations. Lord Sainsbury, the UK Minister for Innovation, has described this convergence as follows:



In the past few years we have witnessed a significant shift from traditional manufacturing economics towards knowledge economies based on creativity and innovation. As a result, businesses with creative,

technical, and intellectual products, processes, and services have placed even more emphasis on the value of IP. Unfortunately we are not the only ones to have recognized the increased value of IP in today's world. Historically, crime has always followed the economy and as the knowledge-based economy provides more opportunities, that is where the criminal elements have moved.¹⁷⁷

The UK has started to devote substantially more resources to the “growing and threatening illegal activity” of IP crime.¹⁷⁸ While IP rights holders in the UK recognize that more work needs to be done, the British government has implemented a number of positive steps yet to be taken in Canada, including: creating an integrated IP crime task force and data collection system; and, implementing the European IP border enforcement system (discussed in the next section).

Integrated IP Crime Task Force and Data Collection System

In 2004, the UK government established the IP Crime Group to provide a strategic and tactical focal point for combating counterfeiting and other IP crimes. Among IPCG initiatives is the centralized IP Crime intelligence database (Tellpat), which collects information from the IP industry and law enforcement agencies concerning IP crime and criminal activities. Tellpat, which already has hundreds of thousands of entries, has significantly assisted enforcement officials and IP rights holders ascertain profiles of counterfeiters and detect trends of counterfeiting “hot spots.”¹⁷⁹

(iii) European Union: IPR Border Enforcement Measures

After the ratification of the TRIPS, the EU took steps to overhaul existing European border enforcement systems through the adoption of three regulations, culminating in Regulation 1383/2003 (Counterfeit Goods Regulation).¹⁸⁰ The Counterfeit Goods Regulation establishes the framework for a border enforcement system, with implementation varying from country to country depending on national laws and policies.

Under the Counterfeit Goods Regulation, IP rights holders may file an application to record their IP rights, including trade-marks and copyrights, with the customs authorities of some or all of the member states. In the case of the UK, for example, IP rights are recorded with a dedicated IP Unit within Her Majesty's Revenue and Customs (HMRC). As under the U.S. system, when recording their IP rights, rights holders are encouraged to provide information to assist customs officers in the detection of counterfeit and pirated goods.

Customs officers will intercept counterfeit and pirated goods based on either an IP rights holder's recordation or on their own initiative (exercising their *ex officio* authority).¹⁸¹

In the case of recorded IP rights, if a customs officer suspects that a shipment contains counterfeit or pirated goods, he or she must suspend the release of the goods until a substantive decision by a competent authority has been made concerning their legitimacy (unless the IP rights holder elects not to proceed in an enforcement action).¹⁸² If the goods are ultimately determined to be counterfeit or pirated, they are seized and destroyed. The regulation also provides a simplified procedure whereby goods may be abandoned for destruction under customs control without the need for a substantive decision, provided that certain conditions are satisfied.¹⁸³

As noted, the precise procedures vary from country to country. In the UK, for example, once goods are detained, rights holders are asked to give HMRC a written opinion within a specified time limit (usually 10 business days) as to whether the goods are counterfeit or pirated and the reasons they are considered infringing. Once customs officers are satisfied that the goods are infringing, based on this written opinion from the rights holder, they will seize them. The declarant (or holder) of the goods then has the right to appeal against the seizure, in which case HMRC may seek the assistance of the rights holder to support its seizure action.¹⁸⁴

In terms of *ex officio* powers, even if no specific IP recordation application covers the suspected counterfeit or pirated goods, customs officers may detain the goods to allow the IP rights holder to submit an application within a prescribed period of time.¹⁸⁵ In this regard, some members of the EU rely heavily on





ex officio seizures to stop the illicit trade of counterfeit and pirated goods. For example, in 2003, private-sector representatives in Belgium stated that over 90 percent of the actions carried out by Belgium Customs officers were initiated *ex officio*.¹⁸⁶

The current regulation also defines the quality and quantity of information that customs authorities may provide to rights holders. For example, when goods are detained, customs officers must advise the rights holder and the declarant (or holder) of the goods of the actual or estimated quantity and the actual or supposed nature of the goods. For purposes of determining whether goods are infringing, they are also required, subject to national privacy laws, to inform the IP rights holder, on request, of the name and address (if known) of the consignee and consigner of the goods, the declarant (or holder) of the goods, and the origin and provenance of the goods.¹⁸⁷

As a result of the improved legal framework and policy, approximately 95 million counterfeit items were intercepted at the external borders of the EU in 2001, a 900 percent increase from 1998.¹⁸⁸ In 2004, 103 million counterfeit items were seized.¹⁸⁹

(iv) World Customs Organization: Model Legislation

“Customs’ powers to act *ex officio* are a key feature of an effective border enforcement regime ... unless Customs are empowered and obliged to act on their own to stop suspected shipments at the borders, the border measures will remain ineffective.”¹⁹³

World Customs Organization

Recognizing the important role that customs authorities can play in fighting counterfeiting and piracy, the World Customs Organization (WCO) developed model legislation to assist governments with the implementation of TRIPS provisions concerning border enforcement measures (the “WCO Model Legislation”).¹⁹⁰

Interestingly, the WCO Model Legislation notes that in some countries, applications for border seizures are dealt with by the courts (as is currently the case in Canada). It goes on to state:

“However, practical experience has shown that authorising customs to deal with this task ensures that the applications are processed in a fair and effective manner without unnecessarily burdening the courts. Naturally the decisions by the customs should be subject to a judicial review by administrative or civil courts.”¹⁹¹

The WCO Model Legislation also recommends a customs recordation system and *ex officio* powers for customs officers similar to the systems that currently exist in both the United States and the EU.¹⁹²

Specifically, in relation to *ex officio* powers of customs authorities, the WCO has stipulated that:

“Customs’ powers to act *ex officio* are a key feature of an effective border enforcement regime. 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.”¹⁹⁴

In addition to *ex officio* powers for customs officers and a customs IP recordation system, other critical elements of the WCO Model Legislation include:

- Prohibiting counterfeit and pirated goods from being imported, exported, or moved in transit;¹⁹⁵
- Prohibiting circumvention devices or “protection defeating devices”; and¹⁹⁶
- As a general rule, ensuring that counterfeit goods are destroyed and not released into the marketplace.¹⁹⁷

Given that the WCO represents 169 member countries (including Canada) that collectively conduct 98 percent of all international trade, the WCO’s official pronouncements on best customs practices are considered highly influential in the global community.



ENDNOTES

1. The Canadian Motion Picture Distributors Association, *Beyond Borders: An Agenda to Combat Film Piracy in Canada* (Beyond Borders), 2006.
2. Royal Canadian Mounted Police, "Intellectual Property Crime in Canada – Hazardous and Costly," RCMP Feature Focus 2005 Economic Crime Canada (*RCMP Report: IPR Crime – Hazardous and Costly*), at <http://www.rcmp-grc.gc.ca/economic_crime/ip_e.htm> and Assessment of commercial scale criminal copyright piracy and trade-mark counterfeiting in Canada (RCMP Counterfeit Assessment), 2000, <http://www.rcmp-grc.gc.ca/crimint/copyright_piracy_e.htm>.
3. Brian Isaac and Carol Osmond, Canadian Anti-Counterfeiting Network (CACN), *The Need for Legal Reform in Canada to Address Intellectual Property Crime* (CACN Report), 2006.
4. United States Trade Representative, Watch List Report, April 2006, at <http://www.ustr.gov/assets/Document_Library/Reports_Publications/2006/2006_Special_301_Review/asset_upload_file190_9339.pdf>.
5. International Federation of the Phonographic Industry, *Piracy Report 2006*, at <<http://www.ifpi.org/site-content/library/piracy-report2006.pdf>>.
6. See, respectively: The Globe and Mail, "U.S. puts Canada on piracy watch list: move sparked by industry complaints about counterfeit goods, customs regime," May 2, 2005; National Magazine, "Faking It," September 2006; National Post, "Anti-counterfeit group asks U.S. to censure Canada," February 17, 2004.
7. National Post, "Canada fails to combat counterfeits," May 4, 2004.
8. National Magazine, "Faking It," September 2006.
9. RCMP Report: IPR Crime – Hazardous and Costly, *supra*. For example, in response to (yet another) scathing critique in 2005 from the United States Trade Representative, the federal government's only public declaration – from Susan Bincoletto, acting director-general of Industry Canada's marketplace framework policy branch – was that it had to "digest" and "review" the criticism. It is unclear what steps, if any, were taken. The Globe and Mail, "U.S. puts Canada on piracy watch list: move sparked by industry complaints about counterfeit goods, customs regime," May 2, 2005.
10. The Gowers Review (Gowers Review), <http://www.hm-treasury.gov.uk/independent_reviews/gowers_review_intellectual_property/gowersreview_index.cfm>.
11. See the Department of Industry website at <<http://www.ic.gc.ca/cmb/welcomeic.nsf/ICPages/Department>>.
12. Gowers Review, *supra*.
13. *Id.*
14. Environics Research Group, 2006 Poll, unpublished.
15. Tim Phillips, *Knockoff: The Deadly Trade in Counterfeit Goods: The True Story of the World's Fastest Growing Crime Wave*, 2005, p.3.
16. World Intellectual Property Organization, "Background Reading Material on Intellectual Property 176" (1988), quoted in J. Thomas McCarthy, *McCarthy on Trade-marks and Unfair Competition*, 2006, pp. 25–27. More recently, WIPO has stated that the counterfeiting "problem is escalating... [and the] scale and nature of the problem demands a coordinated approach to enforcement measures at the national, regional, and international levels." WIPO, "Recent Challenges for Enforcement of Intellectual Property Rights," WIPO Magazine, April 2006, at <http://www.wipo.int/wipo_magazine/en/2006/02/article_0003.html>.
17. RCMP Report: IPR Crime – Hazardous and Costly), *supra*.
18. *Id.*
19. *Beyond Borders*, *supra*, pp. 4–5, 2006. Statistics taken from an international study on the scope and effects of film piracy. The study was commissioned by the Motion Picture Association of America and conducted by L.E.K. Consulting LLC.
20. *Id.*, p.4.
21. The Canadian Recording Industry Association, Press Release, March 2, 2006.
22. See, for example, National Post, "Karaoke bar crackdown: RCMP charges 3 GTA men under Copyright Act," July 27, 2006, quoting Lorne Lipkus, an anti-counterfeiting lawyer, on the negative effect of pirated music on legitimate karaoke bars:

"So you have someone who's in a bar trying to compete honestly. He's paying all the applicable fees and licenses and taxes and he's doing everything above board but people aren't going to him because it costs more..." Mr. Lipkus says he has watched countless businesses squeezed out by illegitimate establishments. "You ask people that are trying to compete legitimately and I tell you, if they're really honest, they are happy as hell seeing in the paper that these guys have been busted."
23. ITbusiness.ca, "Canada faces IP shortfall in the face of piracy: panel – U of T, Microsoft, and others call for tougher penalties to protect rights," April 10, 2006.
24. CACN Report, *supra*, p.10.
25. *Id.*
26. Keynote Address, Canadian Music Week, "Band of Brothers," March 3, 2005.
27. Keynote Address, Canadian Music Week, "Band of Brothers," March 3, 2005.



28. RCMP, "A Strategic Intelligence Assessment of Intellectual Property Crime in Canada," December 15, 2004.
29. ITbusiness.ca, "Canada faces IP shortfall in the face of piracy," *supra*.
30. Wine Business Monthly, "Counterfeit Icewine Puts the Chill on Canadian Sales," February 15, 2005.
31. Business Week, "Bogus parts have turned up in commercial jets," June 10, 1996.
32. J. Rakoff & I. Wolff, Commercial Counterfeiting and the Proposed Trade-mark Counterfeiting Act, 20 Am. Crim. L. Rev. 145 at 152 (1982). Also see, National Magazine, "Faking It," September 2006, p.21, quoting John Cotter, an IP expert in Canada, who states that people around the world are selling counterfeit brake pads made out of sawdust.
33. U.S. News and World Report, "Counterfeit goods threaten firms, consumers, and national security," July 14, 2003; See also: Commercial Counterfeiting and the Proposed Trade-mark Counterfeiting Act, *supra*, p.152. Newsweek, "A Really Nasty Business," Nov. 5, 1990; The Wall Street Journal, "Fake Drug Sites Keep a Step Ahead," August 10, 2004; U.S. News & World Report, "Fake Drugs, Real Worries," September 20, 2004.
34. U.S. News and World Report, "Counterfeit goods threaten firms, consumers, and national security," *supra*. See also, Business Week, "The global counterfeit business is out of control, targeting everything from computer chips to life-saving medicines," Feb. 7, 2005, reporting that the World Health Organization believes that up to 10 percent of medicines sold worldwide were counterfeit. The World Health Organization's Declaration of Rome, Feb. 18, 2006, stated:
 1. Counterfeiting medicines, including the entire range of activities from manufacturing to providing them to patients, is a vile and serious criminal offence that puts human lives at risk and undermines the credibility of health systems.
 2. Because of its direct impact on health, counterfeiting medicines should be combated and punished accordingly.
35. The Hamilton Spectator, "Fake drugs nightmare comes to haunt Canada," Sept. 17, 2005. Also see, <http://ogov.newswire.ca/ontario/GPOE/2006/01/09/c0820.html?lmatch=&lang=_e.html>. In 2005, Canadian law enforcement reported a large increase in the amount of counterfeit pharmaceuticals that they seized. CACN Report, *supra*, p.12.
36. National Law Center for Inter-American Free Trade, Transshipment and Other Threats to the Enforcement of Intellectual Property Rights in Canada and Mexico, Canada (Threats to the Enforcement of IP Rights in Canada), 2003, p.69. It should be noted that the National Law Center's Threats to the Enforcement of IP Rights in Canada was prepared for the United States Customs Service "in large part due to concerns that counterfeit and pirated goods from outside North America are being transshipped to the U.S. through territories of its NAFTA partners," p.1.
37. Health Canada, "Contaminated Counterfeit TIGI Bed Head Moisture Maniac Shampoo," March 6, 2003, <http://www.hc-sc.gc.ca/ahc-asc/media/advisories-avis/2003/2003_10_e.html>.
38. Royal Canadian Mounted Police, News Release, March 30, 2005, <http://www.rcmp-grc.gc.ca/on/press/2005/2005_mar_30_e.htm>.
39. Manny Gratz, CSA International White Paper, The Threat of Counterfeit Product Approval Marks Warrants Aggressive Detection and Enforcement Action, March 2006, <http://www.csa-international.org/retailers_specifiers/counterfeit_marks/counterfeit_marks_white_paper_e.pdf>.
40. For other examples, see: W-Five, Deadly Fakes – The Business of Counterfeit Products, Orig. Air Time, Sunday, March 3, 2002.
41. See Interpol website, in particular the Interpol Intellectual Property Crime Action Group webpages, at <<http://www.interpol.int/Public/FinancialCrime/IntellectualProperty/Publications/IIPCAG.pdf>>. See also, Union Des Fabricants, Counterfeiting and Organised Crime, 2003, which discusses, in detail, the connection between counterfeiting and terrorism, money laundering, drug trafficking, arms trafficking, and illegal immigration, at <<http://www.interpol.int/Public/FinancialCrime/IntellectualProperty/Publications/IIPCAG.pdf>>. See also, more generally, Interpol webpages on IP crime: <<http://www.interpol.int/Public/FinancialCrime/IntellectualProperty/Publications/Default.asp>>.
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43. Security and Prosperity Partnership of North America, "Report to Leaders June 2005," 2005, p.9, at <<http://www.fac-aec.gc.ca/spp/spp-en.pdf>>.
44. See, for example: Royal Canadian Mounted Police, "Intellectual Property Crime in Canada – Hazardous and Costly," RCMP Feature Focus 2005 Economic CrimeCanada, <http://www.rcmp-grc.gc.ca/economic_crime/ip_e.htm>. Royal Canadian Mounted Police, News Release, March 30, 2005, <http://www.rcmp-grc.gc.ca/on/press/2005/2005_mar_30_e.htm>.
45. RCMP Report: IPR Crime – Hazardous and Costly, *supra*.
46. Criminal Intelligence Service of Canada, 2005 Annual Report on Organized Crime in Canada, 2005, p.25, at <http://www.cisc.gc.ca/annual_reports/annual_report2005/>



- document/annual_report_2005_e.pdf>.
47. Criminal Intelligence Service of Canada, 2006 Annual Report on Organized Crime in Canada, 2006, p.17, at <http://www.cisc.gc.ca/annual_reports/annual_report2006/document/annual_report_2006_e.pdf>.
48. United States Trade Representative Watch List Report, April 2006, <http://www.ustr.gov/assets/Document_Library/Reports_Publications/2006/2006_Special_301_Review/asset_upload_file190_9339.pdf>.
49. International Federation of the Phonographic Industry, Piracy Report 2006, at <<http://www.ifpi.org/site-content/library/piracy-report2006.pdf>>.
50. The International Anticounterfeiting Coalition, 2006 USTR 301 Special Report, at <http://www.iacc.org/resources/2006_USTR_Special_301.pdf>.
51. International Intellectual Property Alliance, 2006 Special 301 Report: Canada, at <<http://www.iipa.com/rbc/2006/2006SPEC301CANADA.pdf>>.
52. The Congressional International Anti-Piracy Caucus, 2006 Country Watch List, at <http://www.riaa.com/News/news-letter/pdf/IAPC_2006_watch_list_final.pdf>. See also the report by Jayson Myers, Senior Vice President & Chief Economist of the Canadian Manufacturers & Exporters, Counterfeiting: Economic Impacts, April 2005, <<http://www.cacn.ca/PDF/4-JMyers-CME.pdf>>.
53. Article 41(1) of the TRIPS Agreement.
54. Article 41(2) of the TRIPS Agreement. In this regard, Canada's obligations under NAFTA are nearly identical. By ratifying NAFTA, Canada agreed that its domestic laws "permit effective action against any act of infringement of intellectual property rights covered by this Chapter, including expeditious remedies to prevent infringements and remedies to deter further infringements" and ensured that its enforcement procedures "are not unnecessarily complicated or costly, and do not entail unreasonable time limits or unwarranted delays" (emphasis added). Articles 1714(1) and 1714(2) of the NAFTA Agreement.
55. Article 61 of the TRIPS Agreement; 1717 of the NAFTA Agreement.
56. 51ff of the TRIPS Agreement; 1718 of the NAFTA Agreement.
57. The U.S. Trade Representative stated in 2005 that: "U.S. intellectual property owners are increasingly concerned about Canada's lax and deteriorating border measures and general enforcement that appear to be non-compliant with TRIPS requirements."
58. Royal Canadian Mounted Police, Assessment of commercial scale criminal copyright piracy and trade-mark counterfeiting in Canada (RCMP Counterfeit Assessment), 2000, p.2, <http://www.rcmp-grc.gc.ca/crimint/copyright_piracy_e.htm>.
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60. Interview with Danielle Parr, Executive Director of the Entertainment Software Association, November 30, 2006.
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62. RCMP Counterfeit Assessment, supra, p.16, 2000.
63. RCMP Press Release, "Economic Crime Section Stamps Out Repeat Counterfeit DVD Operation", December 5, 2006.
64. National Post, "Fighting the war on piracy: Police team up with the recording industry to bust bootleggers," May 12, 2003.
65. RCMP Counterfeit Assessment, supra, p.14. The counterfeit importer also received a \$100,000 civil fine as a result of a private action from the rights holder, but even this amount was far less than the profit that would have been generated from the counterfeit goods and no evidence exists that the IP rights holder was able to collect the civil award.
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68. Interview with Danielle Parr, Executive Director of the Entertainment Software Association, November 30, 2006.
69. RCMP Counterfeit Assessment, supra, p.16.
70. RCMP Counterfeit Assessment, supra, p.16.
71. Regina v. Chui Lau, 48082-1-48984-2C, Unreported Decision, at paras. 5, 3, November 16, 2006. R. v. San Francisco Gifts Ltd., [2004] A.J. No. 1608 at paras. 86 to 88. Also see RCMP Report at <http://www.rcmp-grc.gc.ca/ab/news/2006/Edmonton_C&E_SanFrancisco_Jun27-06.htm>.
72. Royal Canadian Mounted Police and Department of Justice, Copyright Enforcement Policy, May 25, 1998.
73. Toronto Police Service, News Release, August 28, 2006.
74. As the International Anticounterfeiting Coalition (IACC) described the situation in Canada, the police are hamstrung by a government "unwilling to do anything positive" about enforcement. The Globe and Mail, "U.S. puts Canada on piracy watch list," May 2, 2005.
75. See, Royal Canadian Mounted Police, Proceeds of Crime, at <http://www.rcmp-grc.gc.ca/poc/proceeds_e.htm>.
76. In this regard, it should be noted that Parliament in the United Kingdom has expressly targeted the profits of counterfeiters in their Proceeds of Crime Act 2002. Likewise, in the United States, pursuant to the Racketeer Influenced and Corrupt Organizations Act, the property and equipment of counterfeiters may be seized if they are found to be trafficking in counterfeit goods. See Part IV of this report.
77. Motion Picture Association, Anti-Piracy Fact Sheet: Asia-Pacific Region, at <<http://www.mpaa.org/AsiaPacificPiracyFactSheet.pdf>>. Also see Motion Picture Association, Optical Disc Piracy v. Illegal Drug Trafficking, October 2005.
78. RCMP Report: IPR Crime – Hazardous and Costly, supra.
79. See Beyond Borders, supra, p.17.



80. Joint Letter to Douglas George, "IPR Enforcement and Proceeds of Crime," September 7, 2006, on behalf of the National Executive Director of ACTRA, the President and CEO of the Canadian Film and Television Production Association, the President of the Canadian Motion Picture Distributors Association, the Executive Director of the Canadian Music Publishers Association, the Executive Director of the Canadian Publishers' Council, the President of the Canadian Recording Industry Association, the National Executive Director & CEO of the Directors Guild of Canada, the Executive Director of the Entertainment Software Association of Canada, and the Executive Director of the Music Industries Association of Canada.
81. Ragdoll Productions (UK) Ltd. V. Jane Does et al., [2003] 2 F.C. 120 at paras. 40, 42 (FCTD). In part, quoting from Fox's Canadian Law of Trade-marks and Unfair Competition.
82. For example, see the case of Mr. Chiu Lau, a well known counterfeiter in BC, who used a revolving door of corporate entities to, in part, shield himself from liability. RCMP Media Relations Website, "Economic Crime Section Stamps Out Repeat Counterfeit DVD Operation," December 5, 2006.
83. Ragdoll Productions (UK) Ltd. V. Jane Does et al., [2003] 2 F.C. 120 at para. 35.
84. RCMP Counterfeit Assessment, supra, p.2.
85. Kamil Idris, World Intellectual Property Organization, Intellectual Property: A Power Tool for Economic Growth, 2005, p.318.
86. UK Department of Trade and Industry, Counter Offensive: An IP Crime Strategy, 2004. Prior to specific anti-counterfeiting legislation in the United States, U.S. intellectual property experts found that, "traditional civil remedies prove largely ineffective against counterfeiters". McCarthy on Trade-marks, supra, pp.25-27.
87. Louis Harms, The Enforcement of Intellectual Property Rights, 2005, pp.266-267.
88. r. v. Ferjo, (1994), 58 CPR (3d) 223 (Ont. C. A.).
89. Beyond Borders, supra, p.23.
90. Interview with Wendy Noss, General Counsel for The Canadian Motion Picture Distributors Association, December 4, 2006. Using different methodology, Twentieth Century Fox estimates that as much as 50% of the world's pirated movies come from camcording in Canada. See, Vito Piliueci, "50% movie piracy from Canada: Hollywood", CanWest News Service, Jan. 25, 2007.
91. Id.
92. Bell ExpressVu Limited Partnership v. Richard Rex et al., 2002 SCC 42.
93. The Ministry of Culture and Communications in Québec (MCCQ) recently estimated that up to 7% of all homes in Montreal are pirating satellite signals. CRTC Filing at <http://support.crtc.gc.ca/applicant/docs.aspx?pn_ph_no=2006-5&call_id=42300&lang=E&defaultName=Minist%20de%20Culture%20er%20des%20Communications>.
94. In June 2006, the Bureau of Broadcast Measurement (BBM) surveyed 35,000 Canadian homes to determine their primary method of receiving television signals. At that time, 2,996,000 Canadian homes received their television service by means of direct-to-home (DTH) satellite receiver. In addition, Decima Research's quarterly Digital Domain report as of March 2006 confirmed that Bell ExpressVu and Star Choice had 2,600,000 legitimate subscribers between them. Accordingly, at that time there were approximately 400,000 Canadian homes receiving DTH signals that are not legitimate customers of either of Canada's two licensed DTH providers. With regard to the financial impact on the industry, the most conservative estimate of \$240,000,000 is derived by using \$50 as the average monthly value of a DTH subscription multiplied by those 400,000 illegal satellite users.
95. See RCMP News Release, Theft of Telecommunication: Five Men from the Laurentian Region Charged, Oct. 11, 2006, <http://www.rcmp-grc.gc.ca/qc/comm/archives/2006/oct06/061011_e.htm>.
96. Eye Weekly, "Pleasure Circuit: Pirates of the Pacific", May 26, 2005.
97. See Ford Motor Co. v. Kuan Tong Industrial Co., (1987) 697 F. Supp. 1108 at 1109 (N. Dis. C. Cal.).
98. 15 U.S.C. § 1117(c)(2).
99. 17 U.S.C. § 504(c)(2).
100. 15 U.S.C. § 1117(b).
101. Criminal Intelligence Service Canada has highlighted the Asia-Pacific region as the primary source of counterfeit goods in Canada:
- [T]he more sophisticated [counterfeit] networks and operations in Canada have organized crime involvement at some or all points of the supply chain from manufacturing to sales....Asia continues to be the primary source continent for counterfeit goods sold throughout the world. Approximately 80 percent of the counterfeit goods for sale in Canada, on the streets by vendors, at flea markets, or even in retail chain stores, originate from abroad, primarily the Asia-Pacific region....There are indications that Canada functions as a conduit for foreign-manufactured counterfeit goods destined for the U.S. market.
- Criminal Intelligence Service Canada, 2005 Annual Report on Organized Crime in Canada, 2005, p.26.
102. In an attempt to improve border enforcement of IP rights, the RCMP negotiated a protocol with the CBSA whereby it was agreed that customs officers had the authority to seize counterfeit goods in their capacity as peace officers under



section 489(2) of the *Criminal Code*, even where no customs or excise offences had occurred. The protocol stipulates, however, that the CBSA will only take action when it has clear intelligence information from the RCMP (or other federal government departments or local police) that there has been a criminal offence and a clear indication that police intend to prosecute the offending importer. CACN Paper, *supra*, p.31. As a result, in practice, customs officers simply detain suspected counterfeit goods and turn them over to the RCMP or local police to carry out the seizure. In this way, CBSA avoids responsibility for storing or destroying the seized goods.

103. National Post, "Anti-counterfeit group asks U.S. to censure Canada," Feb. 17, 2004.
104. CACN Report, *supra*, p.32.
105. National Post, "Canada fails to combat counterfeits," May 4, 2004.
106. James Holloway, *Canadian Anti-counterfeiting Laws and Practice: A Case for Change*, 2005, p.25.
107. For example, in an elementary school program in Virginia, eight-year-olds are asked to paint a picture but not put their name on the picture as they normally would do. After the lesson, pictures are randomly stuck on the school wall and all the kids are allowed to choose the picture they want, write their name on it, and claim ownership to the picture. After the room is quickly filled with upset children, the educator emphasizes to them that this is what they are doing when they steal someone's artistic creation. Tim Phillips, *Knockoff: The Deadly Trade in Counterfeit Goods*, 2005.
108. As noted in the *Canadian Journal of Learning and Technology*, social capital is an intrinsic good that can foster economic efficiencies for a number of reasons:

Social capital can help preserve social norms in the community and reduce delinquent or selfish behaviour. ... Firms benefit from social capital because it facilitates cooperation and coordination, which minimizes transaction costs, such as negotiation and enforcement, imperfect information, and layers of unnecessary bureaucracy. Reciprocal, interdependent relationships reinforce compliance, which helps firms minimize financial risks. In the corporate sector, social capital can provide a competitive edge because efficiency gains in time and information allow more resources to be devoted to producing and marketing better products at a higher volume.

Ben Daniel, et al., "Social Capital in Virtual Learning Communities and Distributed Communities of Practice," *Canadian Journal of Learning and Technology*, Vol. 29(3), Fall 2003.
109. Kamil Idris, *World Intellectual Property Organization, Intellectual Property: A Power Tool for Economic Growth*, 2005, pp. 9, 330.
110. Canadian Alliance Against Software Theft, "CAAST Survey Shows Double Standards Continue to Plague Personal and Corporate Ethics", September 14, 2006.
111. *Id.*
112. Neilson Interactive Entertainment Study, December 2005.
113. Eye Weekly, "Pleasure Circuit: Pirates of the Pacific," May 26, 2005.
114. Tim Phillips, *Knockoff: The Deadly Trade in Counterfeit Goods*, 2005, p.11.
115. Turku School of Economics and Business Administration, prepared for European Commission, Directorate General, Internal Market, *The Contribution of Copyright and Related Rights to the European Economy*, October 20, 2003.
116. Intellectual Property Policy Directorate, Industry Canada and Copyright Policy Branch, *Canadian Heritage, A Framework for Copyright Reform*, June 22, 2001.
117. The Gowers Review, <http://www.hm-treasury.gov.uk/independent_reviews/gowers_review_intellectual_property/gowersreview_index.cfm>, p.3.
118. Telecommunications Policy Review Panel, *Final Report*, 2006. In 2006, *Newsweek* ranked the University of Toronto as the 18th best university worldwide, 9th among public universities, and among the top five universities outside the United States.
119. Institute for Competitiveness & Prosperity (ICP), *Reinventing innovation and commercialization policy in Ontario (Reinventing Innovation)*, Working Paper 6, October 2004, p.22.
120. *Id.*, p.30. It should be noted that Ontario does not have as many workers with advanced graduate degrees in science and engineering, p.31.
121. Quebec Department of Economic Development, Innovation and Export Trade, *Quebec Innovation System Scorecard Summary*, 2005, p.7.
122. ICP, *Rebalancing priorities for Canada's prosperity*, March 2006, p.24.
123. ICP, *Reinventing Innovation*, *supra*, p.24.
124. ICP, *Realizing Canada's Prosperity Potential*, January 2005, pp.28-29.
125. ICP, *Reinventing Innovation*, *supra*, pp. 5, 10.
126. Quebec Department of Economic Development, Innovation and Export Trade, *The Quebec Advantage: The Quebec Government's Economic Development Strategy*, 2005, p.38.
127. Kamil Idris, Director General, *World Intellectual Property Organization, Intellectual Property: A Power Tool for Economic Growth*, 2005, p.39.
128. *The McKinsey Quarterly*, No. 1, 2000. Highlighted in D. Hopkins, et al., *Counterfeiting Exposed*, 2003, p.181.



129. International Chamber of Commerce, Intellectual Property: Source of innovation, creativity, growth and progress, 2005, p.11.
130. World Economic Forum, Global Competitiveness Report, 2004–2005, 2005. Study highlighted in the International Chamber of Commerce, Intellectual Property: Source of innovation, creativity, growth and progress, 2005.
131. Kamil Idris, Director General, World Intellectual Property Organization, Intellectual Property: A Power Tool for Economic Growth, 2005, p.39.
132. Robert Sherwood, Intellectual Property Rights and Economic Development, 1990. Highlighted in Keith Maskus, et al., Intellectual Property and Development: Lessons from Recent Economic Research, 2005, p.300.
133. The Ifo Institute is an economic research group and academic think tank based in Munich Germany; see: <http://www.cesifo-group.de/portal/page?_pageid=36,1&_dad=portal&_schema=PORTAL>.
134. International Chamber of Commerce, Intellectual Property: Source of innovation, creativity, growth and progress, 2005, p.17.
135. Edwin Mansfield, “Intellectual Property Protection, Direct Investment, and Technology Transfer: Germany, Japan, and the United States,” International Finance Corporation Discussion Paper, No. 27, 1995.
136. Kamil Idris, Director General, World Intellectual Property Organization, Intellectual Property: A Power Tool for Economic Growth, 2005, p.45.
137. Keith Maskus, et al., Intellectual Property and Development: Lessons from Recent Economic Research, 2005, pp.299–300.
138. International Chamber of Commerce, Intellectual Property: Source of innovation, creativity, growth and progress, 2005, p.15.
139. Id., pp.19–20.
140. Kamil Idris, World Intellectual Property Organization, Intellectual Property: A Power Tool for Economic Growth, 2005, pp.338–339.
141. Moises Naim, Illicit: How Smugglers, Traffickers, and Copycats are Hijacking the Global Economy, 2005, pp.116–117.
142. Moises Naim, Illicit: How Smugglers, Traffickers, and Copycats are Hijacking the Global Economy, 2005, pp.116–117.
143. The National Intellectual Property Law Enforcement Coordination Council, Report to the President and Congress on Coordination of Intellectual Property Enforcement and Protection, Sept. 2006, pp. 1, ix, 1.
144. Lord Sainsbury of Turville, Speech, Intellectual Property Crime Congress, July 5, 2005.
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146. WIPO Magazine, “Country Focus – Combating Piracy: Brazil Fights Back”, Issue 5, 2006; Isabel Franco, “Striving for Legality” at <<http://www.ipfrontline.com/depts/article.asp?id=13202&deptid=6>>.
147. Eric H. Holder, Jr., Deputy Attorney General, U.S. Department of Justice, Press Conference Announcing the Intellectual Property Rights Initiative (July 23, 1999) at <<http://www.cybercrime.gov/dagipini.htm>>.
148. U.S. Immigration and Customs Enforcement, Fact Sheet, “ICE Intellectual Property Rights (IPR) Investigations” (U.S. Customs IP Fact Sheet), October 2005.
149. US Customs IP Fact Sheet, supra.
150. The procedures to record trade-marks and copyrights with U.S. Customs is regulated, respectively, by 19 CFR § 133.1 et seq. and 19 CFR § 133.31 et seq. In order to be recorded with CBP, trade-marks must first be registered with the U.S. Patent and Trade-marks Office. Copyright works must be registered with the U.S. Copyrights Office unless that work is entitled to protection under the Berne Convention for the Protection of Literary and Artistic Works.
151. A “counterfeit mark” is defined in the legislation as “a spurious mark, which is identical with, or substantially indistinguishable from, a registered mark.” 15 U.S.C. § 1127 and 19 C.F.R. § 133.21.
152. If the Customs officials have the consent of the trade-mark owner and the merchandise is not unsafe or hazardous to health, the secretary may obliterate the trade-mark and deliver it to, or auction it for, a charity. 19 U.S.C. § 1526(e). Also see, 19 C.F.R. §§ 133.21 and 133.52.
153. 17 U.S.C. §§ 601 – 603. Infringing copies or phonorecords are “piratical” articles, i.e., copies or phonorecords which are unlawfully made (i.e., without the authorization of the copyright owner), see 19 C.F.R. § 133.42(a).
154. 19 C.F.R. § 162, 171.
155. 17 USC § 603(c) and 19 C.F.R. 133.52(b). Even goods that are not counterfeit or piratical per se, but infringe a trade-mark or copyright owner’s rights, may be seized and forfeited by U.S. customs. Customs officers may, on their own initiative, seize and forfeit any “merchandise or packaging in which copyright, trade-mark, or trade name protection violations are involved.” See, 19 C.F.R. § 162.23(b)(3).
156. 19 U.S.C. § 1526(f).



157. 19 C.F.R. § 133.27. Many of the enhanced border enforcement provisions, including fines and mandatory destruction of counterfeit materials, are a result of the Anticounterfeiting Act of 1996, Pub. L. 104-153, 110 Stat. 1386, which amended the Tariff Act.
158. In regards to disclosure procedures, see: 19 C.F.R. §§ 133.21(c) and (d); 133.24(b); 133.42(d) and (e); and 133.43(b) and (c).
159. 18 U.S.C. § 2319.
160. 18 U.S.C. § 2320.
161. 18 U.S.C. Appendix § 2B5.3, Commentary Background.
162. 18 USC § 2320(a).
163. Id.
164. See, for example, *United States v. Gantos*, 817 F. 2d 41 (8th Cir 1987).
165. Id.
166. See Sections 3 and 13 of the Anticounterfeiting Consumer Protection Act of 1996.
167. 15 U.S.C. § 1117(c)(1). See, for example, *Nike Inc. v. Variety Wholesalers, Inc.*, 274 F. Supp. 2d 1352 at 1374 (S.D. Ga. 2003) (IP rights holder able to elect \$900,000 in statutory damages for the counterfeit infringement of 9 registered trade-marks).
168. 15 U.S.C. § 1117(c)(2). Other countries, such as Brazil and Israel, have also legislated statutory damage awards.
169. 15 U.S.C. § 1117(a) and (b). In the United States, being willfully blind constitutes willfulness, e.g., *Louis Vuitton S.A. v. Lee*, 875 F. 2d 584, 10 U.S.P.Q. 2d 1935 (7th Cir. 1989).
170. NIPLECC, STOP Report, *supra*, p.113.
171. STOP Report, p.122.
172. United States Attorney's Office, News Release, "Hollywood Movie Pirate Sentenced to 7 Years in Prison for Copyright Infringement and Escape," December 1, 2006.
173. US Customs IP Fact Sheet, *supra*.
174. Id.
175. Id.
176. 18 U.S.C. § 2320(f).
177. United Kingdom Patent Office, National Intellectual Property [IP] Enforcement Report 2005 (UK Enforcement Report), 2005, *supra*, p.5.
178. UK Enforcement Report, *supra*, p.5.
179. UK Enforcement Report, pp.6-7.
180. See also the earlier council regulations: Council Regulation 3295/94 and Council Regulation 241/1999.
181. Counterfeit Goods Regulation, Art. 5.
182. Id.
183. Counterfeit Goods Regulation, Art. 11.
184. See http://customs.hmrc.gov.uk/channelsPortalWebApp/channelsPortalWebApp.portal?_nfpb=true&_pageLabel=pageImport_ShowContent&id=HMCE_CL_000244&propertyType=document.
185. Counterfeit Goods Regulation, Art. 4.
186. Transshipment and Other Threats: Canada, *supra*, p.33.
187. Counterfeit Goods Regulation, Art. 9.
188. Transshipment and Other Threats: Canada, *supra*, p.2.
189. Financial Post, "European Commission to recommend sanctions against counterfeiters," April 26, 2006.
190. WCO Model Legislation, Note on Article 9 (9.01).
191. The current version of the WCO Model Legislation, updated in 2001, is available at http://www.wcoipr.org/wcoipr/Menu_ModelLegislation.htm.
192. WCO Model Legislation, Note on Article 1 (1.01).
193. Imbuing customs officers with ex officio powers is outlined in Art. 9 of the WCO Model Legislation. Establishing a centralized recordation system is outlined in Art. 1. See also Note on Article 1, specifically, 1.04.
194. WCO Model Legislation, Note on Article 9 (9.01).
195. WCO Model Legislation, Art. 9.
196. WCO Model Legislation, Art. 9.
197. WCO Model Legislation, Art. 11 and see the Note on Article 11.

