

Case Comments
Commentaires d'arrêt

Using Copyright Law to Prevent Parallel Importation: A Comment on
Kraft Canada, Inc. v. Euro Excellence, Inc.

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In Kraft Canada, Inc. v. Euro Excellence, Inc., the Federal Court of Appeal ruled that the secondary infringement provisions of the Copyright Act could be used to prevent the parallel importation into Canada of chocolate bars, due to copyrights in the trade-mark logos on the product labels. The effect of this decision, currently on appeal to the Supreme Court of Canada, is to give trade-mark holders a tool to prevent parallel importation in contexts where trade-mark law has generally been ineffective. While the use of copyright law to achieve a result in these circumstances is problematic, the author argues that the solution lies in legislative amendment rather than in creative interpretations of the Copyright Act.

Dans l'affaire Kraft Canada Inc. c. Euro Excellence Inc., la Cour d'appel fédérale a statué que les dispositions consacrées aux « violations à une étape ultérieure » prévues à la Loi sur le droit d'auteur peuvent être invoquées pour empêcher l'importation parallèle de barres de chocolat au Canada, en raison des droits d'auteur qui protègent les logotypes de la marque de commerce qui figurent sur les étiquettes des produits. La conséquence de cette décision, présentement en appel devant la Cour suprême du Canada, sont que les titulaires de marques de commerce sont maintenant dotés d'un moyen d'empêcher l'importation parallèle dans des circonstances où le droit des marques de commerce s'est généralement montré inefficace dans le passé. Il est vrai que l'utilisation du droit d'auteur pour réaliser de tels objectifs dans le cadre de ces circonstances pose problème. C'est pour cette raison que l'auteur fait valoir que la solution serait d'apporter des modifications législatives plutôt que d'interpréter la Loi sur le droit d'auteur de manière fantaisiste.

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Grey-marketing, or parallel importation, is the importation of legal goods outside of distribution networks authorized by the producer. In its 1984 decision in *Consumers Distributing Company Limited v. Seiko Time Canada*,¹ the Supreme Court of Canada made it clear that the law of passing off could not be used to stop the grey-marketing of goods in Canada. The Court wrote that grey-marketing was not inherently illegal and stated that consumers should be allowed to benefit from the lower prices and increased choices that more open competition in the marketplace would bring. Since that decision, a few other attempts have been made to use trade-mark law to prevent parallel importation but, except in cases where deliberate attempts at deception were involved, they have been largely unsuccessful.²

Yet grey-marketing remains a thorn in the side of multinational corporations which use complex authorized distribution networks. In 2004, Kraft Canada, Inc. caused controversy in Canada with legal arguments that invoked the *Copyright Act*,³ rather than trade-mark law, to prevent the parallel importation into Canada of chocolate bars bearing design logos on their labels. On the one hand, the success of Kraft Canada at trial and at the Federal Court of Appeal highlights strategic thinking about marketing and the law,⁴ but on the other hand this success points to flaws in Canada's copyright legislation which Parliament may need to address. In May 2006, the Supreme Court of Canada granted leave to appeal the decision of the Federal Court of Appeal, setting the stage for a further consideration of the issues.⁵

¹ [1984] 1 S.C.R. 583 [*Seiko Time*].

² See, for example, *Sony du Canada Ltée v. Impact Électronique* (1991), 39 C.P.R. (3d) 414 (Que. S.C.) [*Sony v. Impact Électronique*]; *Sony du Canada Ltée v. Multitronic Stéréo Inc.* (1991), 42 C.P.R. (3d) 53 (Que. C.A.) [*Sony v. Multitronic*] (selling refurbished goods as new goods); *Sharp Electronics of Canada Ltd. v. Continental Electronic Info. Inc.* (1988), 23 C.P.R. (3d) 330 (B.C.S.C.) [*Sharp Electronics*] (injunction granted against the sale of machines that had not been approved according to relevant safety standards). Where differences in quality are at issue, appropriate labeling may be sufficient. See *Nestlé Enterprises Ltd. v. Edan Food Sales Inc.* (1991), 37 C.P.R. (3d) 480 (F.C.T.D.).

³ R.S.C. 1985, c. C-42.

⁴ *Kraft Canada Inc. v. Euro Excellence Inc. (F.C.)*, [2004] 4 F.C.R. 410 [*Kraft Canada (FC)*]; *Kraft Canada Inc. v. Euro Excellence Inc. (F.C.A.)*, [2006] 3 F.C.R. 91 [*Kraft Canada (FCA)*]. This particular strategy was discussed by W. Lee Webster in a 1987 article, "Restraining the Gray Marketer: Policy and Practice" (1988) 2 C.I.P.R. 211 at 225: "While this right under the *Copyright Act* will likely not in itself prevent the importation of the offending product, it can be used, at the very least, to create an annoyance in terms of costs and disruption to the gray marketer who will be required to repackage the gray goods and reprint the instruction materials."

⁵ Leave to appeal was granted on May 18, 2006. Online: <http://scc.lexum.umontreal.ca/en/news_release/2006/06-05-18.3.wpd/06-05-18.3.wpd.html>.

Facts

In 2004 Kraft Canada Inc. sued Euro Excellence Inc. over the importation and sale of Côte d'Or and Toblerone chocolate bars in Canada. The Côte d'Or and Toblerone chocolate bars are manufactured in Europe by Kraft Foods Belgium S.A. and Kraft Foods Schweiz AG respectively. In 1993, Kraft Foods Belgium authorized Euro Excellence to act as the Canadian distributor of its Côte d'Or bars in Canada. Kraft Canada had a non-exclusive Canadian distribution agreement with Kraft Foods Belgium dating back to 1990, but it was not distributing the bars in Canada at the time. The contract with Euro Excellence later became an exclusive Canadian distribution agreement, and this contract came to an end in 2000. In 2001, Kraft Canada took up distribution of the Côte d'Or bars in Canada. Euro Excellence continued to distribute Côte d'Or bars obtained from an undisclosed European source. It also began to import Toblerone bars. Kraft Canada had been the exclusive distributor of these bars in Canada since 1993.

The dispute between the parties over the distribution of bars became heated. Euro Excellence took the position that Kraft Canada “was acting in a predatory manner, wanted to take advantage of [Euro Excellence’s] contacts and goodwill and is trying to sacrifice it on the altar of multinational integration.”⁶ By contrast, Kraft Canada accused Euro Excellence of exploiting the Kraft Canada marketing campaign to sell its bars. Because the bars imported by Kraft Canada were wrapped in Europe with wrappers tailored to meet Canadian regulations or, at the very least, with “tasteful” labels specifically printed to comply with Canadian regulations, Kraft Canada also accused Euro Excellence of diminishing the reputation of the product by affixing “cheap stick-on labels”⁷ and by failing to properly comply with Canadian packaging and labeling regulations.

Because of a body of Canadian case law dealing with parallel importation in the Canadian context, as discussed above, it was clear that trade-mark law was likely to be ineffective as a means of preventing the parallel importation. Kraft Canada thus decided to proceed against Euro Excellence using arguments based in copyright law. Kraft Foods Belgium registered copyrights in the Côte d'Or elephant logo, the Côte d'Or script, and the red shield used on its labels. Kraft Foods Schweiz registered the copyright in its distinctive Toblerone bear and mountain design. Both companies then entered into licensing agreements with Kraft Canada, giving Kraft Canada:

⁶ *Kraft Canada (FC)*, *supra* note 4 at 419.

⁷ *Ibid.*

... the sole and exclusive right and license in the Territory to produce, reproduce and adapt the Works or any substantial part thereof, in any material form whatever, and to use and publicly present the Works in association with the manufacture, distribution or sale in Canada of confectionary products, including, but not limited to, chocolate.⁸

Once in possession of the licences, Kraft Canada demanded that Euro Excellence cease and desist from importing and distributing the bars bearing the copyrighted works. When Euro Excellence refused, Kraft Canada sued for copyright infringement.

Decisions Below

At trial, Euro Excellence made a number of arguments challenging the legitimacy of Kraft Canada's action against it. Its arguments can be grouped into three categories: challenges to the validity of the copyrights; arguments based on equity; and constitutional issues and public policy arguments.

Harrington J. of the Federal Court made short work of arguments that the creative director of the company which designed the Côte d'Or packaging, who was listed as author on the copyright registration, was not the author of the works. He found that the elephant design mark on the Côte d'Or bars and the bear and mountain design mark on the Toblerone bars were sufficiently original to qualify for copyright protection. However, he accepted Euro Excellence's view that the Côte d'Or script and red shield lacked the requisite originality.

Harrington J. also dismissed the plaintiff's equity arguments. Euro Excellence had argued that Kraft Foods Belgium had lured it into the business of distributing its bars in Canada when there was already a distribution agreement in place between Kraft Foods Belgium and Kraft Canada. Harrington J. opined that if there was anything to this argument, it should be dealt with in the context of a suit in contract against Kraft Foods Belgium, and noted that in any event a contractual wrong would not be a justification for copyright infringement. Euro Excellence also argued that the sole purpose of Kraft Foods Belgium and Kraft Foods Schweiz in registering copyrights in Canada and assigning rights to Kraft Canada was to mount an attack on the business of Euro Excellence. Harrington J. dismissed this argument as well, noting tersely, "As far as I am concerned, Kraft was simply taking care of business. There is nothing wrong with that."⁹

⁸ *Ibid.* at 420.

⁹ *Ibid.* at 428.

On the public policy front, Euro Excellence argued that s. 27(2)(e) of the *Copyright Act*, which deals with infringement by importation, must be interpreted restrictively to respect the constitutional division of powers. According to this argument, copyright law gives authors a range of exclusive rights, but these rights do not include an express importation right. Thus, section 27(2) has the effect of creating a delict, or tort, based on the importation of works, and must be narrowly interpreted so as to avoid impinging on property and civil rights in the province. Harrington J. rejected this argument, stating that the importation of copyrighted works against the will of a licensee infringes the *Copyright Act*, which is a matter within federal jurisdiction. He also rejected an argument that because there is a separate provision in section 27.1 prohibiting the parallel importation of books, the Act should be interpreted to permit parallel importation of other goods. Harrington J. noted that the section 27.1 rights do not depend on the book distributor being a licensee of the copyright; in this case, Kraft Canada is a licensee, and was exerting its rights as a licensee.

Ultimately, the core of Euro Excellence's argument was that the *Copyright Act* should not be used to prevent the competitive distribution of goods in cases where the goods themselves are not copyright-protected works, and the copyrighted works at issue are simply ancillary to the imported goods. Harrington J. found no basis in the legislation to make an exception in these circumstances. He stated: "The language is clear, and the very purpose of the Act is to prevent unauthorized distribution of copyrighted works. There is nothing to prevent Euro Excellence from replacing the wrappers or otherwise covering over the copyright material."¹⁰ Ultimately, he concluded: "I have found in Kraft's favour because I think the *Copyright Act* compels me to."¹¹ Harrington J. granted an injunction that would prevent Euro Excellence from importing the bars in the copyright-protected wrappers for the purpose of sale or distribution, but did not order Euro Excellence to recall products that had left its control or to turn over product already in its inventory. He awarded an accounting and payment of Euro Excellence's profits in respect of the sale of the bars with labels bearing the copyright-protected works, and fixed that amount at \$300,000. In a subsequent ruling,¹² Harrington J. approved of a plastic film placed over the logos on the bars by Euro Excellence, and permitted the distribution of the bars so long as the copyright-protected logos were covered.

¹⁰ *Ibid.* at 432.

¹¹ *Ibid.*

¹² *Kraft Canada Inc. v. Euro Excellence* (2004), 33 C.P.R. (4th) 242 [*Kraft Canada* (injunction)].

Euro Excellence appealed this decision, putting forward essentially the same arguments on appeal. The respondents cross-appealed, arguing that the injunction granted should be amended to prohibit Euro Excellence from possessing and importing the products at issue “for the purpose of doing anything referred to in sub-paragraphs 27(2)(a) to (c) of the Act.”¹³ Desjardins J.A., for the Federal Court of Appeal, did not address many of the arguments, finding that the trial judge committed errors on only two of the issues. The issues which the Court of Appeal addressed specifically were whether Euro Excellence had violated subsection 27(2) of the *Copyright Act*, and, if it had, whether a determination of the profits should be made.¹⁴ Desjardins J.A. ruled that Euro Excellence did, in fact, infringe section 27(2) of the Act. She found the record with respect to the calculation of profits to be unsatisfactory, and referred the matter back to the trial judge for a redetermination.¹⁵ She rejected the cross-appeal, noting that the remedy sought by Kraft Canada was superfluous.

Secondary Infringement

This comment will focus on the central issue in the case: the interpretation of the secondary infringement provisions of the *Copyright Act*.¹⁶ Primary infringement occurs where a person exercises one or more of the exclusive rights of the copyright holder. Secondary infringement, by contrast, arises where a person commits certain acts with respect to copyright-protected works that are themselves not within the list of the exclusive rights of the copyright holder. Secondary infringement is dealt with in section 27(2), which reads:

27(2) It is an infringement of copyright for any person to

- (a) sell or rent out,
- (b) distribute to such an extent as to affect prejudicially the owner of the copyright,

¹³ *Kraft Canada* (FCA), *supra* note 4 at 116.

¹⁴ *Ibid.* at 103-04.

¹⁵ The decision of Harrington J., on redetermination, was handed down in April 2006. See: *Kraft Canada, Inc. et al. v. Euro Excellence, Inc.*, 2006 FC 453. Harrington J. essentially confirmed the details of his initial award.

¹⁶ Challenges to the originality of the trade-mark designs were raised at first instance, and the trial judge referred to these as “technical defences.” Although there is nothing “technical” about the requirement of originality in copyright law, the issues are “technical” when contrasted with the far more important question of whether the *Copyright Act* can be used to stop the parallel importation of trade-marked goods. This is the issue on which the Court of Appeal focused, and it will be the focus of this comment.

- (c) by way of trade distribute, expose or offer for sale or rental, or exhibit in public,
- (d) possess for the purpose of doing anything referred to in paragraphs (a) to (c), or
- (e) import into Canada for the purpose of doing anything referred to in paragraphs (a) to (c),

a copy of a work, sound recording or fixation of a performer's performance or of a communication signal that the person knows or should have known infringes copyright or would infringe copyright if it had been made in Canada by the person who made it.

In *Kraft Canada*, the plaintiff argued that the chocolate bars Euro Excellence sold were covered with wrappers bearing infringing works. Euro Excellence was thus liable for secondary infringement when, by way of trade, it distributed and offered the wrapped chocolate bars for sale. It was also in possession of the wrapped bars for the purpose of sale or distribution (contrary to section 27(2)(d)). Finally, it had imported the bars into Canada for the purpose of selling or distributing them by way of trade.

The copyright-protected designs had been reproduced on the wrappers by the copyright holders in Europe, and thus were not directly infringing works. However, section 27(2) also protects a party where the copy of the work that has been sold, distributed or imported “would infringe copyright if it had been made in Canada by the person who made it.” Since the European copyright owners had granted Kraft Canada the exclusive right to “produce or reproduce” the copyright-protected works in Canada, had either Kraft Foods Belgium or Kraft Foods Schweiz produced or reproduced the works on the labels in Canada, they would have infringed the rights of Kraft Canada. According to Desjardins J.A., this interpretation is supported by section 2.7 of the *Copyright Act*:

2.7 For the purposes of this Act, an exclusive licence is an authorization to do any act that is subject to copyright to the exclusion of all others including the copyright owner, whether the authorization is granted by the owner or an exclusive licensee claiming under the owner.

Section 13(7) is also relevant to the issue of the scope of exclusive licences. It provides:

13(7) For greater certainty, it is deemed always to have been the law that a grant of an exclusive licence in a copyright constitutes the grant of an interest in the copyright by licence.

Under the *Copyright Act*, an exclusive licence is closer to a grant of an interest than to a mere authorization to do certain acts. The licensee is empowered to sue for infringement of the exclusive rights.¹⁷ As an exclusive licensee, only Kraft Canada was entitled to produce or reproduce the works in Canada.

The secondary infringement provisions apply where the works at issue are infringing copies. Desjardins J.A. noted that the definition of “infringing” in the Act includes “a copy that is imported in the circumstances set out in paragraph 27(2)(e) . . . but does not *otherwise* include a copy made with the consent of the owner of the copyright in the country where the copy was made.”¹⁸ A copy imported contrary to section 27(2)(e) will thus be an infringing copy even if it was made with the consent of the copyright owner in the country where the copy was made (and was therefore not infringing when it was made outside of Canada), so long as the importer “knows or should have known [it] . . . would infringe copyright if it had been made in Canada by the person who made it.” However, such a copy is only “infringing” if the requirements of section 27(2)(e) are made out. Thus, a copy made with the consent of the owner of copyright in the country where it was made and imported for purposes other than those listed in sub-paragraphs 27(2)(a) to (c) is not an infringing copy. To illustrate, Harrington J. had given the example of the Toblerone or Côte d’Or chocolate bar purchased in Europe and brought back to Canada by a traveller for her personal consumption. Such a bar is not imported for any of the purposes set out in section 27(2)(a) to (c) (as required by section 27(2)(e)), and the traveller would not be liable for secondary infringement.¹⁹

The Australian Experience

At first instance Harrington J. considered how the Australian courts dealt with a substantially similar issue in 1986. In *R & A Bailey & Co. v. Boccaccio Pty Ltd*,²⁰ Young J. considered the application of the Australian trade-mark and copyright legislation to the parallel importation of bottles of Bailey’s Original Irish Cream. Young J. rejected trade-mark infringement arguments noting that since the marks on the bottles were placed there by the trade-mark owner, to find infringement would “change the nature of the mark from a badge of origin to a badge

¹⁷ *Copyright Act*, *supra* note 3, s. 36. They would be required to join the copyright owner as a party (s. 36(2)). See also David Vaver, *Copyright Law* (Concord, Ont.: Irwin Law, 2000) at 240-41.

¹⁸ *Copyright Act*, *ibid.*, s. 2, definition of “infringing” [emphasis added].

¹⁹ *Kraft Canada* (injunction), *supra* note 13 at 244.

²⁰ (1986), 4 N.S.W.L.R. 701 (E.D.) [*Bailey’s*].

of control.”²¹ In his view, the provision of the *Trade-Marks Act 1955* granting exclusive rights to the owner²² “only operates to prevent the sale in Australia of goods which are not the proprietor’s but which are marked with the proprietor’s mark.”²³ This is consistent with the position in Canadian law.

On the argument that importation of the bottles bearing copyright-protected labels violated copyright law, Young J. considered three general public policy arguments. First, it was argued that an artistic work that is created to be a trade-mark is a general exception to the principle that an implied licence “cannot be inferred from the mere fact that the owner of the copyright has sold the goods without any express restriction on their subsequent disposal.”²⁴ It was argued that if the artistic work is a trade-mark, there is an implied licence, as a matter of commercial necessity. Young J. rejected this argument as being essentially incompatible with the rule that any implied licence must arise by implication from the contract of sale of the goods in the first instance.

The second public policy argument was that any copyright work created to serve as a trade-mark must be held to surrender any copyright protection inconsistent with the protection afforded under trade-mark law. Young J. noted that there was no authority for this argument and that, indeed, there was a “wide proposition that a person who has both a trade mark and a copyright is generally entitled to protection against both.”²⁵

The third public policy argument was that “as every subsequent commercial dealing in the bottles involves a use of the trade mark, it is necessary that the owner of the copyright in the label be taken to have licensed or consented to any activity which is permitted by the trade mark legislation.”²⁶ Young J. rejected this argument on a number of grounds. First, he noted that it did not follow that no further dealings could be made with the goods, as the labels could be replaced or removed. He also refused to take the position that copyright law should be made subordinate to trade mark law in this area.

²¹ *Ibid.* at 707.

²² (Cth.), s. 58.

²³ *Bailey’s*, *supra* note 20 at 709-10.

²⁴ From *Interstate Parcel Express Co Pty Ltd. v. Time-Life International (Nederlands) BV* (1977), 138 C.L.R. 534 at 545 (H.C.Aus.), cited in *ibid.* at 712.

²⁵ *Bailey’s*, *supra* note 20 at 713.

²⁶ *Ibid.* at 712.

On the public policy issues more generally, Young J. concluded:

Apart from the British Leyland case there has not been as far as I know any judicial indication of any policy of the law that where a person has more than one industrial property right, it can only avail it of the protection afforded to one of those rights and where there is a conflict it is copyright which is disregarded.²⁷

He ruled that the defendants had infringed copyright by “selling or by way of trade, offering or exposing for sale bottles with labels” protected by trade-mark law.

In *Kraft Canada*, Harrington J. described *Bailey’s* as “squarely on point”²⁸ and noted that it had an obvious impact on Kraft Canada’s strategy. He stated that he found the case persuasive and was “not prepared to simply use the *Copyright Act* as a touchstone for an imaginative frolic of my own.”²⁹ In his view, public policy concerns were adequately addressed since Euro Excellence could continue selling products with disputed labels removed or covered.

Legislative Amendment in Australia

The result in the *Bailey’s* case was of such concern in Australia that it led to an amendment of the Australian *Copyright Act 1968*.³⁰ In a 1988 report by the Copyright Law Review Committee of Australia, the use of copyright law to restrain parallel importation of goods bearing design trade-marks was considered “an inappropriate use of copyright.”³¹ In 1998 amendments were introduced, which have since been implemented. A government press release stated that “the amendments will stop the practice of using copyright in artistic works on packages and labels to prevent businesses and individuals from importing and reselling legitimate products.”³²

The new provisions of the Australian *Copyright Act* which address parallel importation and product labels are complex, but they can be summarized as follows: An “accessory” to an article is defined to include “a label affixed to, displayed on, incorporated into the surface of,

²⁷ *Ibid.* at 714.

²⁸ *Kraft Canada* (FC), *supra* note 4 at 431.

²⁹ *Ibid.* at 432.

³⁰ No. 104 *Copyright Amendment Act (No.1) 1998* (Cth.) and No. 105 *Copyright Amendment Act (No.2) 1998* (Cth.). Both acts were given assent on 30 July 1998.

³¹ L. Baulch, “Recent Amendments to the Australian Copyright Act”, Australian Copyright Council, A98n18, October 1998.

³² *Ibid.* at 6.

or accompanying the article.”³³ Section 37 of the Act prohibits secondary infringement in much the same way that Canada’s section 27(2) does, but the section focuses on the importation of “articles” that would, if made in Australia, constitute an infringement of the copyright. Section 37 would only extend to accessories to articles that themselves are protected by copyright. Section 38 applies more generally to the sale, distribution and importation of copyright protected works. However, section 44C of the Act explicitly states that:

44C (1) The copyright in a work a copy of which is, or is on, or embodied in, a non-infringing accessory to an article is not infringed by importing the accessory with the article.

(2) Section 38 does not apply to a copy of a work, being a copy that is, or is on, or embodied in, a non-infringing accessory to an article, if the importation of the accessory is not an infringement of copyright in the work.³⁴

A “non-infringing accessory”³⁵ is defined in the Act as one made in a country subscribing to the *Berne Convention for the Protection of Literary and Artistic Works*³⁶ or in a country that is a member of the World Trade Organization, and where the making of the copy of the work embodied in the accessory “was authorized by the owner of the copyright in that country.”³⁷ Thus, the first paragraph of section 44C makes it clear that the importation of a copyright protected work that is part of an accessory to an article is not infringement by importation. Section 38, which provides for infringement through sale and other dealings is excluded from application in circumstances where there is no infringement through importation.

The Australian solution excludes the use of copyright legislation to prevent parallel importation. Claimants may no longer charge copyright infringements on label designs or other accessories to packaged goods. This policy choice focuses on the values articulated by the government which introduced the amendments, namely more open competition resulting in lower prices and more choice for consumers.³⁸ It loosens the hold of exclusive distribution arrangements on markets; as one author

³³ *Copyright Act 1968*, Act No. 63 of 1968 as am. (Cth.), s. 10(1), definition of “accessory”. The definition also includes written instructions and warranty or other product information in the definition of accessory.

³⁴ *Ibid.*, s. 44C [emphasis added].

³⁵ *Ibid.*, s. 10(1), definition of “non-infringing accessory.”

³⁶ September 9, 1886.

³⁷ *Supra* note 32, s. 10(1).

³⁸ Baulch, *supra* note 31 at 6.

notes, “Businesses that presently don’t have the rights to sell certain brands will now be able to source these brands from overseas and sell them.”³⁹

Public Policy

There are, of course, public policy arguments that favour restrictions on parallel importation. In Australia, authorized distributors lobbied against the amendments discussed above, arguing that “the current provisions protect consumers from imported items which may be of inferior quality and may be unsafe, and that removing the parallel importation provisions allows importers to free-ride on the marketing paid for [sic] the authorized distributor.”⁴⁰ There are two arguments here. The first, that parallel importation protects consumers from inferior or unsafe goods, is easily dealt with by existing law in relation to trade-marks and passing off. In Canada, for example, these laws have been effective in preventing the importation or sale of goods that are different from what the consumer would expect.⁴¹ In *Seiko Time*, Consumers Distributing was required to post a notice to customers explaining it was not an authorized distributor of the Seiko watches it sold. In *Kraft Canada*, the plaintiff argued that the products being distributed by Euro Excellence had labels that did not meet the federal product labeling requirements, and thus could prove unsafe for consumers with allergies. Yet, as Harrington J. noted, this is also a matter that can be dealt with under other laws: “Any complaint Kraft has concerning a competitor’s alleged failure to respect labeling laws should be directed elsewhere.”⁴²

³⁹ *Ibid.*

⁴⁰ *Ibid.* Webster states: “Frequently, the gray marketer will be selling outdated products or products having components which are not readily serviceable or replaceable in Canada. In some cases, the gray marketed products may not comply with packaging, labeling, language or safety requirements.” Webster, *supra* note 4 at 211.

⁴¹ See, for example, *Sony v. Impact Électronique*, *supra* note 2; *Sony v. Multitronic*, *supra* note 2; and *Sharp Electronics*, *supra* note 2 for examples of circumstances when the sale of goods of different quality was successfully enjoined. In *H.J. Heinz Co. of Canada Ltd. v. Edan Foods Sales Inc.* (1991), 35 C.P.R. (3d) 213 (F.C.T.D.), Heinz Canada was successful in using trade-mark law to prevent the importation of ketchup made in the U.S. according to a slightly different recipe, and bearing the Heinz marks registered in the U.S. by Heinz U.S. Heinz Canada was the registered owner of the Canadian Heinz trade-marks. Of course, it is certainly not always the case that the Canadian subsidiary will own the Canadian trade-marks; see Webster, *supra* note 4 at 215.

⁴² *Kraft Canada (FC)*, *supra* note 4 at 427. For a discussion of other possible recourse, including recourse by the exclusive distributor against manufacturers who allow products to enter into the grey market, see Webster, *supra* note 4 at 225-27.

The second argument, that parallel importation allows unauthorized distributors to free-ride on the advertising and marketing efforts of the authorized distributor, is of a somewhat different nature. It was also among the concerns raised by the plaintiff in *Kraft Canada*.⁴³ Those who argue vigorously against parallel importation practices maintain that exclusive distributors of goods make significant investments in the marketing and selling of goods. Other costs, such as fees for distribution rights and minimum purchase requirements may also raise the stakes for exclusive distributors.⁴⁴ One advocate stated this position strongly:

In most cases the gray marketed products will be priced lower than the domestic products typically as a result of the gray marketer having little capital investment and no responsibility for development of the product name and reputation or as a result of fluctuations in the value of the currency. Accordingly, authorized distributors have an interest in ensuring that their distribution rights are protected...⁴⁵

In a similar vein, Duncan Card notes:

Having made a considerable financial and administrative investment to secure the exclusive right to buy and sell a product in the specified territory, the distributor finds it commercially vital to maximize its sales and promote its goodwill. Any loss of economic reward or harm to its goodwill because of sales in the territory by any other party who trades on the benefits of the authorized distributor's marketing and advertising expenditures would be extremely unfair.⁴⁶

The ability of parallel importers to offer lower cost options to consumers may flow directly from their ability to avoid the particular costs faced by exclusive distributors.

The Supreme Court of Canada heard similar arguments in *Seiko Time*. There, the Court emphasized the importance of free and open competition, with its resulting benefits to consumers, as a significant countervailing consideration.⁴⁷ Exclusive distribution arrangements can

⁴³ *Kraft Canada* (FC), *supra* note 4 at 419.

⁴⁴ Duncan Card, "Parallel Importation of Copyright Property: A Proposal to Amend the Canadian *Copyright Act*" (1990) 6 I.P.J. 97 at 98.

⁴⁵ Webster, *supra* note 4 at 211.

⁴⁶ Card, *supra* note 44 at 98-99. For a nuanced discussion of the policy issues relating to intellectual property and parallel importation, see W.L. Hayhurst, Q.C., "Intellectual Property as a Non-Tariff Barrier in Canada, With Particular Reference to 'Grey Goods' and 'Parallel Imports'" (1990) 31 C.P.R. (3d) 289.

⁴⁷ *Supra* note 1 at 598, citing John G. Fleming, *The Law of Torts*, 6th ed. (Sydney:

limit consumer choice and keep prices high. The Court in *Seiko Time* also emphasized the remedies available to an intellectual property rights holder within its network of exclusive distribution agreements. If a product is entering a market through parallel importation, the remedy may lie in better internal policing and in contractual remedies against rogue distributors.⁴⁸ More recently, in *Théberge v. Galerie d'art du petit Champlain*,⁴⁹ the Supreme Court of Canada again placed emphasis on the importance of balancing the rights of the copyright holder with the rights of the party who purchases a legal, authorized reproduction to deal freely with that work.

Beyond broad policy arguments regarding parallel importation, more specific policy issues arise. Euro Excellence argued the *Copyright Act* should not be used to prevent parallel importation in situations where the copyright works at issue are only ancillary to the product being imported. It argued that the Supreme Court of Canada's approach to parallel importation in *Seiko Time* was applicable here as well. In dealing with the argument that the law of passing off should apply where Consumers Distributing had imported and sold Seiko watches outside the authorized distribution system, Estey J., in *Seiko Time*, wrote:

The problem facing the respondent [Seiko Time Canada] is that the logical extension of this proposal grants to a vendor, in the position of the respondent, a monopoly on the sale in Canada of a product to the same extent as it would enjoy if the product were subject to a patent of invention issued to the respondent under the Patent Act of Canada. A second cul-de-sac into which such a submission necessarily leads is that the common law, in its personal property sector, would thereby be recognizing a right to entail and control the sale of personal property, however legitimately acquired, where another person in the position of the vendor, was also marketing the identical item of personal property. Such a principle is foreign to our law.⁵⁰

Euro Excellence argued that the effect of the copyright arguments put forward by Kraft Canada would be substantially similar. Importation of products outside the authorized distribution network could be enjoined if the packaging or labels of those products bore a copyright-protected design. The exclusive distributor/exclusive licensee of the copyright would have a monopoly over the sale of the goods in their original packaging. They would also have a right of control over personal

Law Book Co., 1983) at 674 and 676.

⁴⁸ *Seiko Time*, *supra* note 1 at 610-12.

⁴⁹ [2002] 2 S.C.R. 336 at 355-56 [*Théberge*].

⁵⁰ *Seiko Time*, *supra* note 1 at 599. A similar resistance to the extension of trademark law so as to afford patent-like monopolies outside the patent system was expressed by the Supreme Court in the recent case, *Kirkbi AG v. Ritvik Holdings Inc.*, [2005] 3 S.C.R. 302 at 334 [*Kirkbi*].

property legitimately acquired. Yet despite these considerations, Kraft Canada's secondary infringement argument proved successful at first instance and on appeal.

The appeal to public policy is understandable in the circumstances. It is problematic to use copyright law to extend broader protection to trade-marks than is available under trade-mark law. Yet this is not the first time that copyright law has been invoked to step in where trade-mark law will not venture. In both *Compagnie Générale des Établissements Michelin – Michelin & Cie v. National Automobile, Aerospace, Transportation and General Workers Union of Canada (CAW-Canada)*,⁵¹ and *Rôtisseries St-Hubert Ltée v. Le Syndicat des Travailleurs de la Rôtisserie St-Hubert de Drummondville (C.S.N.)*,⁵² courts of first instance ruled that while it was not an infringement of trade-mark law for unions to use parodied corporate logos on picket signs or informational brochures, copyright law could be used to enjoin the use of such logos. What is more significant in *Kraft Canada* is the use of copyright law to create a commercial monopoly over the importation and distribution of certain legal goods in Canada where the goods are not the copyright works themselves. Rather, the copyright works are merely ancillary to the goods.

The remedy fashioned by Harrington J. attempts to acknowledge the public policy concerns: the injunction was tailored to allow for the continued importation and sale of the chocolate bars so long as the logos are covered by stickers of a kind and quality that cannot be removed without destroying the underlying copyright-protected image.⁵³ The appropriateness of the remedy is worthy of consideration. It seems similar to the remedy in *Seiko Time* requiring notification to customers that Consumers Distributing was not an authorized Seiko dealer and that Seiko Canada would not guarantee watches bought from them. In both cases a message is sent to the consumer to indicate that there is something out of the ordinary in the provenance of the goods. However, the remedy in *Seiko Time* provides clear information to the consumer at the point of purchase. It indicates a difference, not in the goods, but in how they are distributed. The remedy in *Kraft Canada* is qualitatively different. In *Seiko Time*, the trade-marks on the goods sold were not obscured. The goods were sold as packaged by the trade-mark owner. In *Kraft Canada*, the injunction required altering the packaging and obscuring distinctive designs. It is difficult to predict what message consumers receive, but it seems likely that some may have concerns

⁵¹ [1997] 2 F.C. 306 at 357 (F.C.T.D.) [*Michelin*].

⁵² (1986), 17 C.P.R. (3d) 461 (Qc. Sup. Ct.) [*Rôtisseries St-Hubert*].

⁵³ *Kraft Canada* (injunction), *supra* note 12.

about the authenticity or provenance of the product they purchase. It is trite to say that trade-marks are an indication of trade source.⁵⁴ Obscuring a trade-mark design necessarily calls the source of the goods into question. Further, the remedy, unlike that in *Seiko Time*, interferes with the resale of legitimately acquired personal property, especially if one views a chocolate bar and its packaging as being intimately linked. Certainly, quality chocolate is not sold in bulk; the wrapping conveys a crucial message of source and quality. This raises the question of whether a product wrapper is truly “ancillary” to the product in all circumstances. If a consumer is able to distinguish a premium quality product from a more run of the mill product based on its wrapper, it could be argued that the wrapper is not ancillary. The legislature must, at the very least, consider how it defines “ancillary” if it wishes to limit the scope of copyright protection for labeling.

Ultimately, the *Kraft Canada* case may not be so much about policy choices regarding parallel importation or the scope of intellectual property rights as a matter of interpretation. Rather, it may be best characterized as a competition law issue.⁵⁵ In Europe it is much clearer that the use of intellectual property rights to limit parallel importation may be dealt with under competition laws as anti-competitive behaviour.⁵⁶ Of course, the European context is very particular — the competition provisions govern trade between member states for the benefit of all member states, whereas Canada’s competition law is concerned primarily with competition in the Canadian marketplace. Nevertheless, the issues raised in *Kraft Canada* do have a significant competition law dimension.

⁵⁴ This point was recently strongly affirmed by the Supreme Court of Canada; see *Mattel, Inc. v. 3894207 Canada Inc.* (2006), 49 C.P.R. (4th) 321 at 334-36. See also *Kirkbi*, *supra* note 50 at 328-29.

⁵⁵ Australia’s copyright legislation was recently amended to remove restrictions on the parallel importation of software; see *Copyright Amendment (Parallel Importation) Act 2003*, No. 34, 2003. In a paper released by the Australian Copyright Council it was noted that the government amended the legislation due to a long-held view that “parallel importation restrictions have been used by copyright owners to restrict competition, and to charge Australian consumers more than overseas consumers for software and other copyright material;” see Virginia Morrison, “Restrictions lifted on parallel importation of software; enforcement provisions strengthened”, Australian Copyright Council, 7 April 2003. Online: http://www.copyright.org.au/pdf/acc/articles_pdf/A03n04.pdf.

⁵⁶ Article 81 of the *Treaty Establishing the European Community*, 24 December 2002, O.J. C.325/33 bars agreements “which may affect trade between Member States and which have as their object or effect the prevention, restriction or distortion of competition within the common market.”

European law has developed a distinction, similar to that in Canadian competition law, between the existence of intellectual property monopoly rights (which do not in and of themselves present any competition law problems) and the exercise of those rights. Where intellectual property rights are exercised through agreements that have the effect of limiting competition in a marketplace, the exercise of those rights may be actionable. As one author writes:

There are two parts to the restrictive practice of blocking parallel importation within the market. The first part is the agreement between undertakings evidencing an intention to distort competition. The second is the anti-competitive act itself: the use of intellectual property rights to enforce what may be an otherwise legally-permissible agreement.⁵⁷

These elements are arguably present in this case, which combines an exclusive distribution agreement with an exercise of intellectual property rights designed to bolster the exclusivity of that contract. It is thus possible to characterize *Kraft Canada* as a competition law problem. In other words, the heart of the issue is less the nature and scope of the intellectual property rights than the manner in which they have been exercised. If this is the case, the situation is best not addressed by novel interpretations of the *Copyright Act*.

The Way Forward

The decisions in *Kraft Canada* at first instance and on appeal are strongly focused on the interpretation of the *Copyright Act*. Absent any ambiguity in the wording of the Act, the judgments seem to say there is little latitude for broad public-policy-oriented interpretations. Indeed, Harrington J. notes: “I have found in Kraft’s favour because I think the *Copyright Act* compels me to.”⁵⁸ This is clearly reminiscent of the Supreme Court of Canada in *Bishop v. Stevens*,⁵⁹ where McLachlin J., as she then was, stated, “[C]opyright law is purely statutory law, which ‘simply creates rights and obligations upon the terms and in the circumstances set out in the statute’ [. . .] First and foremost, then, this case is a matter of statutory interpretation.”⁶⁰

⁵⁷ Thomas Hays, “Anti-competitive Agreements and Extra-market Parallel Importation” (2001) 26 Eur. L. Rev. 468 at 470.

⁵⁸ *Kraft Canada* (FC), *supra* note 4 at 432.

⁵⁹ *Bishop v. Stevens*, [1990] 2 S.C.R. 467.

⁶⁰ McLachlin J. was quoting from an earlier Supreme Court of Canada decision, *Compo Co. v. Blue Crest Music Inc.*, [1980] 1 S.C.R. 357 at 373.

Yet in more recent cases the Supreme Court of Canada has adopted a more policy-driven approach to interpreting the *Copyright Act*.⁶¹ The decision to grant leave in this case suggests that the court may be poised to offer an interpretation of the secondary infringement provisions that introduce the pro-competition approach championed by the Court more than twenty years earlier in *Seiko Time*. In the more recent decision in *Kirkbi AG v. Ritvik Holdings, Inc.*, LeBel J. for the unanimous court spoke of the trend towards extending intellectual property rights through litigation:

The economic value of intellectual property rights arouses the imagination and litigiousness of rights holders in their search for continuing protection of what they view as their rightful property. Such a search carries with it the risk of discarding basic and necessary distinctions between different forms of intellectual property and their legal and economic functions.⁶²

The concern on the part of the Court is clear, yet the intersection between trade-mark and copyright law has a different history than that between trade-mark and patent law.

As a matter of pure statutory interpretation it is difficult to find fault with the decisions below. The wording of the *Copyright Act* leads to the kind of injunction granted by Harrington J. Assuming that the Court has granted leave because of the public policy issues, it is left with two broad options. It can uphold the decisions below while urging Parliament to take action to correct the problem, or it can take matters into its own hands and interpret the secondary infringement provisions so as to not apply to copyright designs on product labels.

Straightforward statutory interpretation favours the “leave it to Parliament” approach. Even a purposive approach to statutory interpretation is not intended to do violence to the wording of the language of the enactment. Yet this approach is unappealing because Parliament seems paralyzed when it comes to copyright reform. Not only is the “current” round of reform stalled, but the former Liberal government’s three phase approach to reform suggests that there is a rather long queue and no promise of speedy action on any particular issue. Whether parallel importation issues will attract any interest from

⁶¹ See for example, *Théberge*, *supra* note 49 at paras. 30-32, where Binnie J. sets out the policy balance that informs the purpose of copyright legislation in Canada. See also *CCH Canadian Ltd. v. Law Society of Upper Canada*, [2004] 1 S.C.R. 339; and *Society of Composers, Authors and Music Publishers of Canada v. Canadian Assn. of Internet Providers*, [2004] 2 S.C.R. 427.

⁶² *Supra* note 50 at para. 327.

new law makers remains to be seen. This issue is contentious and will require consultation and study. This all adds up to a glacial response to a live issue.

Nevertheless, there are strong arguments against relying on a judicial solution in this area. The Australian experience clearly demonstrates that the reform of the law has a certain level of complexity to it.⁶³ Any change to the law must anticipate the nature and extent of situations that might arise under the new law. The courts are not well positioned to do this. In Australia, the amendments required study and consultation, and, in their drafting, were fairly intricate. A systematic policy review at the political level may be more appropriate than what the courts can offer.

The real issue may be a broader one, reaching to the proper relationship between copyright and trade-mark law when one is dealing with design trade-marks eligible for protection under both regimes. It is interesting to note that Walsh J. in the *Bailey's* case rejected arguments that trade-mark designs should not also be eligible for copyright protection largely on the basis that there was no authority to support this position. The situation in Canada is much the same. In fact, there is authority to support the opposite position. Cases such as *Michelin* and *Rôtisseries St-Hubert* support the view that trade-mark designs are eligible for both copyright and trade-mark protection. These cases are lower court decisions and it is open to the Supreme Court of Canada to find them wrongly decided on the copyright infringement points. Yet while it would be tempting to propose an interpretation of copyright law that eliminates "double-dipping" for design trade-mark protection, such an interpretation would be difficult to support. For example, section 64(3) of the *Copyright Act*, which deals with the interface between copyright and industrial design protection, indicates that design trade-marks are protected by copyright law. The general rule is that copyright in designs applied to useful articles is not infringed when the article is reproduced in a quantity of more than fifty.⁶⁴ Section 64(3)(b) creates an exception for, *inter alia*, a work used as or for "a trade-mark or a reproduction thereof or a label." Parliament has clearly contemplated that trade-mark designs and product labels can be works in which copyright subsists.

Finally, it should be noted that tinkering with "double-dipping" for design marks or product labels will not resolve all of the issues. Similar

⁶³ In his careful review of intellectual property rights and parallel importation, Hayhurst, *supra* note 46 at 294, identifies a wide range of policy considerations which he describes as "some of the considerations that legislatures may face in striking the right balance between territorial intellectual property rights and freedom of trade."

⁶⁴ *Supra* note 3, s. 64(2).

copyright arguments could be raised with respect to product instructions, warranty booklets, and other literature included with a product that is imported into Canada. Such works are also eligible for copyright protection. A properly tailored legislative exception would address all relevant “non-infringing accessories,” as is the case in Australia.

Tempting though it might be to fashion a judge-made exception for parallel importation, one need only look at the decision of the House of Lords in *British Leyland Motor Corp. Ltd. v. Armstrong Patents Co. Ltd.*⁶⁵ for an object lesson on the risks of judicial intervention on complex policy issues. Struck by the public policy implications of an earlier decision by the House of Lords that interpreted the British *Copyright Act 1956*⁶⁶ to mean that three-dimensional works could infringe on two-dimensional drawings, the majority of the House of Lords created a public policy exception so as to prevent the creation of monopolies over spare car parts by parties asserting rights in design drawings of the parts. The majority’s position was criticized by Lord Griffiths in dissent. He noted that it was likely that the earlier House of Lords decision was incorrect and that the better approach would be to depart from that interpretation of the legislation, rather than to cling to it in the face of unacceptable consequences. He also expressed misgivings about his colleagues’ judicially-created exception designed to avoid the public policy implications, something which he called “the spare parts exception to the law of copyright.”⁶⁷ In his words:

... if it did prove that the right Parliament had given was being abused it is, I think, for Parliament to correct the abuse and not for the courts to refuse to enforce a right that Parliament has given, particularly when it is quite obvious that the exercise of the right must impinge, to some extent, on the rights of others.⁶⁸

There is much to be said for caution in using the courts to creatively constrain the nature and scope of the monopolies granted under intellectual property legislation.

⁶⁵ [1986] 1 All E.R. 850 (H.L.).

⁶⁶ (U.K.) 4 & 5 Eliz. 2, c. 74.

⁶⁷ *Supra* note 65 at 883-84.

⁶⁸ *Ibid.* at 884.