



Copyright and Parallel Imports - The Supreme Court of Canada Decides

The Supreme Court of Canada recently issued its much anticipated decision in *Euro-Excellence Inc. v. Kraft Canada Inc.*, 2007 SCC 37.

The appeal to the Supreme Court addressed the issue of grey market goods which have been legitimately placed into the stream of commerce in a foreign market, but whose importation and sale in Canada is alleged to infringe artistic copyright with respect to logos appearing on packaging associated with the imported wares. The case dealt with the appearance of such logos on Toblerone and Côte d'Or chocolate bars.

Kraft Canada Inc. is the exclusive Canadian licensee and distributor of the Côte d'Or and Toblerone chocolate bars in Canada on behalf of its parent companies Kraft Foods Schweiz and Kraft Foods Belgium S.A. (KFS and KFB). The parent companies registered copyright in Canada in each of the artistic works entitled "Côte d'Or Elephant" and "Toblerone Bear within the Mountain". KCI was granted an exclusive license for the production, reproduction and distribution in Canada of the subject works.

The defendant, Euro-Excellence Inc., had acquired a supply of Côte d'Or and Toblerone chocolate bars with the logos appearing thereon from a European source and imported these into Canada for sale to the general public. The issue was whether such activities infringed copyright on the basis of Section 27(2) of the Copyright Act.

Section 27(2) concerns secondary infringement of copyright. Under this section, a defendant may in fact be deemed to have infringed copyright if he or she has not personally produced or reproduced the works. Under the terms of the subsection, it is an infringement of copyright for any person to import into Canada for the purpose of selling, distributing or by way of trade distributing, exposing or offering for sale, or exhibiting in public, a copy of a work 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.

The court was asked to consider the following primary issues:

1. is copyright protection available for an artistic work which is reproduced on products for commercial purposes; and

2. would it be an infringement for the copyright owner to have reproduced the artistic work in Canada in the face of its own distributor's exclusive copyright license.

A majority held that copyright does indeed subsist concurrently in a trade-mark or a representation thereof on a label. In the previous decision of *Kirkbi AG v. Ritvik Holdings Inc.*, the Court held that trade-marks law cannot be leveraged to extend protection to subjects that are properly the subject matter of patent law.

The Court in *Kirkbi* cautioned against interpreting trade-marks law in a way that undermines the Patent Act holding that the Trade-marks Act itself expressly incorporates the doctrine of functionality, recognizing that trade-marks law is not intended to prevent the competitive use of utilitarian features of products, since its purpose is to fulfill a source distinguishing function.

The Court ruled in *Kraft*, however, that the Copyright Act permits a work to be the subject of both trade-mark and copyright protection as the Parliament of Canada has authorized concurrent protection. On this basis the Supreme Court held that the courts are bound to conclude that a logo on a chocolate wrapper can receive concurrent trade-mark and copyright protection.

A minority on this particular issue suggested otherwise, ruling that the subjects of copyright law and trade-marks law must not overlap. The object of trade-mark protection is to preserve competitive market share and goodwill. Copyright, on the other hand, is limited to protect legitimate economic interests which are the result of an exercise of skill and judgment, and that such protection must not be extended beyond its proper limits. Trade-marks law protects market share and commercial goods whereas copyright protects the economic gains resulting from an exercise of skill and judgment. If trade-mark law does not protect market share in a particular situation, the law of copyright should not be used to provide that protection, if that requires contorting copyright outside its normal sphere of operations.

The minority on this issue went on to say that the protection offered by copyright law cannot be leveraged to include protection of economic interests that are only tangentially related to the copyright as merely incidental to their value as consumer goods. Such a conclusion would allow copyright to be leveraged far beyond the use intended by Parliament,

allowing rights to be artificially enlarged to protect consumer goods. It is only when it is the work itself which is the subject of importation, sale, distribution or other commercial dealing that it can properly be said that the Section 27 applies and copyright protection becomes available.

The majority on this issue did not agree holding that there is nothing in the Copyright Act to endorse a restrictive definition. The majority reasoned that the Act is indifferent as to whether the sale of the wrapper is important to the consumer. To inject an exception for logos on the basis that they are incidental would be to introduce unnecessary uncertainty, inviting case-by-case judicial explorations into the uncharted areas of what is merely incidental, somewhat incidental, or not incidental at all. Such an approach would also take insufficient account of the reality that many products are, to a significant extent, sold on the basis of their logo or packaging. The majority on this issue held that once a work falls within the definition of a protectable work under the Copyright Act, there is no scope for judicially created limited protection based on what might or might not be a legitimate economic interest.

Having decided that copyright protection extends to logos appearing on commercial packaging, the Court went on to consider the issue of whether importation of the grey market goods by the defendant Euro-Excellence constituted secondary infringement of copyright.

Four out of the nine justices held that in order for Kraft to succeed, it must show that Euro-Excellence imported works that would have infringed copyright if they had been made in Canada by the person who made them, in this case the Kraft parent companies. The Court noted that the copyright had not been assigned to Kraft Canada but merely licensed exclusively. To accept Kraft's argument, the Court would have had to find that copyright owners can infringe their own copyright if they have licensed copyright to an exclusive licensee despite their retention of the copyright.

In the view of justices Rothstein, Binnie, Deschamps and Fish, the Copyright Act does not permit exclusive licensees to sue the copyright owner-licensor for infringement of its own copyright. If the Kraft parent companies had reproduced the labels in Canada in violation of its licensing agreement with Kraft Canada, Kraft Canada's only remedy would lie in breach of contract and not in copyright infringement. In other words, the Kraft parent companies would not have infringed copyright if they had produced the logos in Canada as no person can simultaneously be owner and infringer of copyright. Since a case of hypothetical primary infringement, necessary to engage the provisions of Section 27(2), had not been made out, Euro-Excellence's importation of the chocolate bars did not constitute secondary infringement of copyright.

The remaining justices, Abella, McLachlin, Bastarache, LeBel and Charron held that the grant of a sole and exclusive license of copyright does vest the licensee with a whole panoply of rights and that the Kraft parent companies could not have made a copy of the works in Canada without infringing the copyright. The Kraft Canadian licensee would therefore be entitled to sue for infringement as against the owner licensor if the works had been produced by in Canada. Since a case of hypothetical primary infringement had been made out in the opinion of the remaining justices, secondary infringement had been committed by Euro-Excellence.

One may ask, however, that if the numeric majority of judges held that copyright does exist in a logo associated with a commercial product and that a copyright owner could hypothetically be sued by the exclusive Canadian licensee, how is it that Euro-Excellence's appeal was allowed?

The answer is that there were differently constituted majorities on the issues, with another differently constituted majority in the result.

Only two of the nine justices, Abella and McLachlin, agreed as to both the existence of protectable copyright and hypothetical infringement.

Four of the justices, Rothstein, Binnie, Deschamps and Fish held that copyright subsists in the labels, but that hypothetical infringement had not been established.

Three justices, Bastarache, LeBel and Charron held that copyright protection is not available for the labels but that a case for hypothetical infringement had been made out.

Accordingly, a majority lined up in allowing the appeal but for different reasons, whereas the dissenting minority would have dismissed the appeal but whose reasoning has led to differently constituted majorities on the issues.

Nonetheless, the decision will give a great deal of immediate comfort to importers of legitimate products which reproduce copyrighted logos. What remains to be seen is how the courts will apply the decision in the event that copyright is assigned. It seems likely that a parallel importer can be successfully sued for secondary infringement when faced with an assignee of copyright.

This update is intended to provide general comment only and should not be relied upon as legal advice.

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