

GREY MARKETING: AN OVERVIEW OF RECENT DEVELOPMENTS

by

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Grey marketing is hardly a new phenomenon but in a world market characterized by the facility with which goods become internationally known and circulated, the problems caused by the practice are more acute today.

Definition of "grey market" goods

Grey market goods are goods that are imported and distributed in Canada, against the wishes of a trade mark or copyright owner, authorized importer or distributor, and that originate from a source having some relationship to the intellectual property right owner. They are called "grey" because they were legitimately marketed and acquired abroad but doubts exist as to whether they may be imported in Canada without infringing a local trade mark or copyright. The expressions "grey goods" and "grey marketing" were properly coined some years ago and are still proper today. After the judgments recently handed down by the Federal Court of Canada, Trial Division, in the NINTENDO and the two EDAN FOODS cases, "grey goods" are as grey as ever.

The problem raised by grey marketing is twofold. Goods that attract grey marketers are those that can be purchased on the world market at prices substantially lower than the prices charged domestically by the intellectual property owner or his authorized distributors enjoying a quasi-monopoly. Lower prices being evidently more attractive to consumers, the grey marketers' business will thrive and the "legitimate" distributor can easily be

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driven to bankruptcy. From the perspective of consumers and free competition advocates, a grey market situation is heaven.

However, from the intellectual property owner perspective, higher local prices may be perfectly justified, for example, by higher overhead and costs Canada, expensive after-sale service, the establishment of a large distribution network to cover the territory or compliance with local legislation and regulations. Once its network is well established, it is embarrassing and costly for the trade mark or copyright owner to compete with its own goods, possibly having different components and packaging and sold at a lower price. Therefore, from the perspective of international intellectual property owners and their lawyers, a grey market situation is hell.

Grey marketing is sometimes referred to as "parallel distribution" or "parallel imports". Trying to prevent, by whatever legal means, grey marketing causes problems and will always cause problems: the goods are genuine.

The popularity of grey marketing and parallel importation has risen considerably in the past few years. Some authors believe that the value of goods sold through such channels to be worth over 10 billion dollars per year in North America.

Role of intellectual property rights in defeating grey marketing

Trade marks and copyrights can be used to stop grey marketing and prevent the flow of goods bearing the trade marks or in association with which copyrighted material is used, even if such goods are genuine, provided that appropriate legal protection (flowing from a combination of the law and the facts) exists.

In the 1960's, when grey marketing was not as popular as it is today, it was believed that ownership of a trade mark by a Canadian operation would, in all cases, be sufficient to prevent grey marketing. In the simplest cases, a trade mark owner would be able to defeat grey marketing of its products by bringing an infringement action. Under s. 19 of the Trade Marks Act (1985 R.S.C., c. T-13), the owner of a valid Canadian trade mark registration has the exclusive right to use the trade mark, throughout Canada, in association with the wares for which the trade mark is registered, and this right is infringed by the unauthorized use of the trade mark.

In Remington Rand Limited v. Transworld Metal Company Limited ((1959-60) 19 Fox P.C., 204), an interlocutory injunction was granted to the plaintiff on the above principle to prevent parallel importation in Canada of electric shavers

from the United States. In that case, the trade marks were owned by the plaintiff, a Canadian company. The validity of the registrations was not contested and the wares were not originating from the plaintiff but from a common manufacturing source in the United States. Commenting on the balance of convenience, the Court found that a purchaser could be deceived if, buying a U.S. shaver, he later found that the shaver was not sold and not warranted by the plaintiff.

In a case where the facts were similar, Wilkinson Sword (Canada) Limited v. Juda ((1968) 2 Ex.C.R. 137), an injunction was refused, the trade mark registrations in issue having been found invalid for lack of distinctiveness by the Court. The WILKINSON marks had been used in Canada for over 40 years by a United Kingdom company and later assigned to its Canadian subsidiary, in 1965, prior to bringing an action against a parallel importer. The Court found that the trade marks, when the action was brought, signified to the Canadian purchasing public what they had always signified, notwithstanding the transfer to the Canadian subsidiary. (see also Ulay Canada Ltd v. Calstock Traders Ltd. ((1969-70) 42 Fox P.C. 178).

The same conclusion prevailed in Brecks Sporting Goods Co. Ltd. v. Magder ((1976) S.C.R., 527). The Supreme Court of Canada, confirming the Federal Court of Appeal, found that the registration for the trade mark "MEPPS", owned by the Canadian distributor of the goods following successive assignments of the mark, to be invalid for lack of distinctiveness, the mark still being associated by the public to the manufacturer of the wares, its original owner.

All the above cases concerned "internationally" known trade marks. In all cases, the mark was owned by the Canadian company dealing with the products on an exclusive basis and in all cases where the validity of the registration was put in issue, it was declared invalid or the validity was placed in doubt. In all cases the Court found that the mark was still associated by the public in Canada, with the manufacturer of the goods abroad, the original owner the mark.

Life was being made difficult by Canadian courts for exclusive contractual distributors, even when they owned a trade mark registration. It must be understood that normally exclusive distributors have no trade mark or copyright interest in the product they distribute. The financial and administrative commitment of these distributors is substantial since they have the obligation to maintain a trained sales staff, produce promotional materials, etc., expenses unknown to grey marketers. Exclusive distributors are vulnerable to parallel importers who benefit from their advertising and promotion expenses.

Owning a trade mark registration being insufficient, other original ways had to be found to protect local markets. An attempt was made by an authorized distributor to rely upon the law of passing-off to prevent grey marketing, when the facts showed that the public could be deceived into thinking it was getting goods provided by an authorized distributor with all the benefits attached to these goods when in fact it was not. This was the era of the "extended passing off action".

In 1984, in the SEIKO case, the Supreme Court of Canada limited the right of action of authorized distributors against grey marketers. Firstly, the Court supported the policy of freedom of competition and held that attempts to restrict grey marketing would be influenced by the doctrine of exhaustion or, in other words, the right to resell goods legally acquired on the world market. Recently, other decisions changed the policy considerations with respect to grey marketers. They will be discussed later.

The SEIKO decision

Seiko Time Canada Ltd. was the exclusive distributor of SEIKO watches in Canada and was neither the registered owner or a registered user of the trade mark SEIKO. The watches were manufactured by K. Hattori & Company Limited in Japan, the registered owner of the trade mark. The product was marketed around the world through a distribution system consisting of authorized distributors and their authorized dealers. By contractual arrangements, Seiko Time Canada was an authorized distributor and was entitled to choose authorized dealers who would sell SEIKO watches in Canada, provide the service and respect the manufacturer's warranty. The defendant, Consumer Distributing Co. Ltd., was not an authorized dealer of SEIKO watches.

The products sold by the two companies were physically identical. The only difference was that the guarantee booklet accompanying the watches sold by Consumers Distributing was intended for the United States and stated that the guarantee would be valid only if properly filled by an authorized dealer. The plaintiff was asking for a permanent injunction enjoining the defendant from advertising or selling SEIKO watches in Canada or, alternatively, a permanent injunction restraining the defendant from holding itself out as an authorized SEIKO dealer of the plaintiff by advertising and selling SEIKO watches as internationally guaranteed, and damages.

Mr. Justice Holland of the Ontario Supreme Court found (50 C.P.R. (2d) 147) that the SEIKO product comprised the watch itself boxed with an instructional booklet, the point of sale service, the warranty properly filled out by an authorized dealer, and the after sale service. The watches sold by Consumer

Distributing were announced and sold as SEIKO products. The defendant was misleading the public since it offered only one of the four elements of the "product".

He also found that the Common Law action of "passing off" applied to the present case for a number of reasons. There is a misrepresentation to the public, made by a trader in the course of trade, to prospective customers, which is calculated to injure the business or goodwill of another trader, and which causes actual damages to a business or goodwill of the trader by whom the action is brought. The judge granted, *inter alia*, an injunction, permanently enjoining the defendant from advertising and selling SEIKO watches in Canada and awarded \$ 5,000 for damages suffered by the plaintiff.

Consumers Distributing appealed the injunction described above (60 C.P.R. (2d) 222). The appeal was dismissed for the reasons given by the trial judge and particularly because of the fact that the product marketed by the plaintiff was not simply a watch alone.

In the Supreme Court (10 D.L.R. (4th) 161), Mr. Justice Estey, for the Court, found that the conduct of the defendant did not amount to "passing off", as the concept is known in Canada, for many reasons:

- a) First, elements such as the point of sale service and the after sale service which were offered by Seiko Time Canada for its authorized dealers only cannot be included in the definition of the "product". The defendant was selling precisely the same watch, coming from the same source, as the plaintiff.
- b) Restraining grey marketing of "legitimate" products could be perceived to be a restriction to the right of free competition in the marketplace and would have the following consequences:
 - . The public would be deprived of the right to purchase SEIKO watches on the alternative basis that the watch would be unsupported by the manufacturer's warranty;
 - . A monopoly would be established similar to that established by a validly issued patent except that the monopoly would be for an unlimited period of time.
- c) Attempts to restrict grey marketing by asserting trade mark rights must be influenced by the doctrine of exhaustion. Once "legitimate" goods are sold into the marketplace anywhere in the world, there can be no

further restriction on their physical transfer by the assertion of intellectual property rights that reside in the goods.

- d) There is a requirement in passing off cases that there must be a misrepresentation or deceit of some kind to the public by reason of the sale of grey goods. In SEIKO, there was no such misrepresentation or deceit once the defendant was ordered to warrant the public by way of notices posted at point-of-purchase locations that Consumers Distributing was not an authorized dealer and that the watches it sold were not internationally guaranteed by Seiko Time Canada.
- e) The extended definition of the "passing off" action was not applicable because the watches sold by Consumers Distributing were not falsely described, both Seiko Time Canada and Consumers Distributing gave retail buyers a form of guarantee and, in each case, the trade mark SEIKO distinguished the product from all others.

The appeal was allowed and the injunction permanently enjoining Consumers Distributing from advertising or selling SEIKO watches in Canada was ordered to be deleted from the judgement issued at trial. However, the Court noted that nothing was advanced by Seiko Time Canada with reference to any rights flowing by way of a registered trade mark in the name of the owner K. Hattori & Company Limited, or rights flowing from an appointment as registered user of said mark.

The Supreme Court of Canada has not ruled out, in every case, the possibility of success of a passing off action to prevent grey marketing. In the SEIKO case, the Court found that the public could not be deceived once the first injunction was issued. Any misrepresentation by grey marketers may still be enjoined. The principle established by the SEIKO decision has been applied in, *inter alia*, Bergeron c. Babin ((1988) 17 C.P.R. (3d) 73).

The NINTENDO decision

As mentioned earlier, the Supreme Court of Canada, in the SEIKO case, expressly stated that it was not concerned with a situation where some rights could flow from a registration of a trade mark or as a registered user of a trade mark. The Federal Court of Canada, Trial Division, was called upon to consider such a situation in 1989. In the NINTENDO case ((1989) 37 C.P.R. (3d) 358), Mattel Canada was asking for an interlocutory injunction restraining the defendant, GTS Acquisitions, from infringing the NINTENDO trade marks. Mattel Canada was the registered user of the trade marks and was appointed exclusive distributor of NINTENDO products in Canada. The registered owner of the trade marks was a U.S. company, the exclusive

distributor in North America of NINTENDO products manufactured in Japan by Nintendo Co. Ltd..

The plaintiff had spent through the years 20 million dollars to promote its products in Canada, offered a warranty against all defects and provided telephone hot lines to answer questions. The defendant began, in 1989, to import U.S. video games into Canada for distribution. Mattel Canada brought an action immediately when it discovered that a grey market was developing in the country.

The two products were physically identical and were made by the same company, the only difference being that the U.S. product was available with the packaging and the instructional material in English only. The warranty did not apply to U.S. products and Mattel Canada had to explain to the public that it could not be held responsible for the U.S. video games. This affected its credibility and its capacity to meet its minimum sales contractually agreed to with its U.S. principal.

The defendant relied on the SEIKO decision and argued that there could be no infringement of the NINTENDO trade marks when used in association with the genuine goods supplied by the actual owner of the mark.

Mr. Justice Joyal was dealing with an application for an interlocutory injunction and thus had to find first whether there was a serious issue to be tried. He came to the conclusion that the lack of any deception of the public by the sale of a trade mark owner's own goods was not conclusive of the kind of issue before him. The SEIKO case left the door open to other considerations if a registered user or owner was involved. Other tests must be considered when some kind of unfair competition is raised.

"According to s.-s. 49(3) of the Act (now 50(3)) the permitted use of a trade mark by a registered user has the same effect for all purposes of the Act as the use thereof by a registered owner. I should think that prima facie, such a provision affords the plaintiff some protection." (p. 365)

Joyal J. then referred to paragraph 7(e) of the Act which provides that no person shall adopt any business practice contrary to honest industrial or commercial usage in Canada. (No reference was made to the Supreme Court decision in McDonald vs Vapor Canada Ltd. ((1977) 2 R.C.S., 134) where section 7(e) was declared *ultra vires*.)

Joyal J. concluded that since "As in ... the Remington Rand case, supra, the defendant is selling a product under the plaintiff's trade mark for which neither leave nor license has been obtained.", the threshold test for the

issuance for an interlocutory injunction had been met. The reference to "plaintiff's trade mark" is here clearly wrong, plaintiff being only a registered user. In *Remington Rand* as seen above, the plaintiff was the owner of the mark in Canada.

It is hard to reconcile this decision with previous decisions:

a. At p. 362 (27 C.P.R. (3d)), Joyal J. found:

"If the action before me were by the owner of the Nintendo mark and if the only evidence be that the defendant is selling a Nintendo product covered by the trade mark, there would be no case for the owner. It would be somewhat ridiculous to assert infringement or passing off when the defendant is dealing with the owner's own wares. There cannot be, in such circumstances, any deception."

Later, he found:

"According to s.-s. 49(3) of the Act, the permitted use of a trade mark by a registered user has the same effect for all purposes of the Act as the use thereof by a registered owner."

This being so, a registered user cannot be in a better position than the registered owner of a trade mark. Having found that the registered owner would have no right of action if the only evidence available was that the defendant was selling a NINTENDO product covered by the owner's trade mark, there could be no right of action for a registered user.

Section 50(3) is of no relevance in a situation where genuine products are sold by third parties. It is just as ridiculous for a registered user "... to assert infringement or passing off when the defendant is dealing with the owner's own wares". No rights flowing from an inscription as a registered user can be infringed if the registered owner's rights are not infringed when considering the same set of facts.

b. Joyal J. should not have granted the injunction on the basis of unfair competition in the absence of a clear finding of fact that the defendant's activities were causing deception. Parallel importation as such, as decided in the *SEIKO* case, does not amount to unfair competition.

c. Joyal J. also found that the Trade Marks Act cannot protect unlawful activities. To be unlawful, an activity must be contrary to law. The judge

based this part of his decision on paragraph 7(e) of the Act which was declared *ultra vires* in 1977.

Registered users of trade marks acting as exclusive distributors in Canada should find no comfort in this decision.

The HEINZ and NESTLE decisions

Two interlocutory decisions of importance on the subject of grey marketing were recently delivered in February and July 1991. Both involved as defendant Edan Foods Sales Inc., a grey marketer. The judgement in the first case was handed down February 13, 1991 in H.G. Heinz Company of Canada Ltd. v. Edan Foods Sales Inc. ((1991) 35 C.P.R. (3d) 213), a judgement of Mr. Justice Cullen of the Federal Court of Canada, Trial Division.

Heinz Canada was asking for an interlocutory injunction restraining Edan Foods from infringing its registered trade marks for ketchup by importing in Canada ketchup produced by Heinz U.S., the plaintiff's parent company. The HEINZ trade marks had been used in Canada by the U.S. company from 1909 until 1940 when they were assigned to Heinz Canada, upon its incorporation. Since then, Heinz Canada advertised its own ketchup which is made in Canada in accordance with the taste preferences of the Canadian public. The packaging was specifically designed with the characteristics of the Canadian market in mind.

Dealing with a motion for an interlocutory injunction, Cullen J. merely had to find that plaintiff had satisfied the "serious issue to be tried" test before considering irreparable harm and balance of inconvenience.

The court found that there was a serious issue to be tried, relying on sections 19, 20 and 6 of the Trade Marks Act. Plaintiff had a registered trade mark and a presumption of infringement exists if a person not authorized by the owner uses trade mark likely to create confusion with a registered trade mark, as defined by section 6.

To find as he did, Cullen J. did not have to consider any of the traditional arguments advanced by grey marketers. He did briefly refer to special circumstances created by a situation of grey marketing under the heading "Importation" and found the "... case at bar on all fours with the Remington Rand case ..." referred to earlier. He also cited with approval the Mattel Canada decision.

The second case involved Nesle Enterprises Limited v. Edan Foods Sales Ltd., a decision not yet reported of Mr. Justice Strayer dated July 31, 1991. Nestle

Enterprises, a registered user of the trade mark NESCAFE in Canada, filed an application for an interlocutory injunction based on section 7(b) of the Trade Marks Act against the defendant to prohibit the importation of an instant coffee called "Mountain Blend", sold in association with the trade mark NESCAFE in a jar with a cylindrical top virtually identical to those used by the plaintiff. Even though Nesle Enterprises alleged infringement of its exclusive rights flowing from its status as registered user of the NESCAFE trade mark in its statement of claim, it only sought injunctive relief with respect to the conduct prohibited by section 7 (passing off).

The interlocutory injunction was refused for many reasons. Firstly, Nestle Enterprises had delayed applying for its injunction and it was not shown that it would suffer irreparable harm should the defendant continue to sell "Mountain Blend" coffee in Canada. (This part of the decision, not relevant with respect to any grey marketing considerations, is based on the recent decision of the Federal Court of Appeal dated May 8, 1991 in Novopharm Ltd. v. Syntex where it was found that alleging infringement of a registered trade mark is not sufficient in itself to establish irreparable harm. Here, the plaintiff is not even the owner of the trade mark.)

Strayer J. distinguished Mr. Justice Cullen's decision in the HEINZ case on the fact that in the latter case the plaintiff was the owner of the registered trade mark. He also found that the labels of the products involved were sufficiently different to prevent potential confusion. Strayer J. even though dealing with a claim advanced by a registered user did not refer to the NINTENDO case.

No decision on the merit has been rendered to date in either cases. Heinz Canada should succeed in its action. It has owned the trade mark HEINZ in Canada for over 50 years, its product is "canadianized" (advertising, containers and content). Edan Foods would be hardpressed to argue that the HEINZ trade mark is not distinctive of the Canadian company's products. On that basis, the decisions in WILKINSON SWORD and BRECK'S SPORTING GOODS are clearly distinguishable.

The situation in NESLE ENTERPRISES is clearly different. As mentioned when commenting on the NINTENDO decision, it is hard to see how the court could find infringement of the rights flowing from a registration as user of a trade mark, when no infringement of the registered owner's right could be found. The passing off conclusions are hopeless in the absence of any finding of misrepresentation by the grey marketer, following the *dicta* in the SEIKO case.

Summarizing the above, it appears that the only solution to prevent grey marketing of legitimate goods lies in the early establishment of a separate and independent Canadian operation exclusively dealing in the products within the territory and understood as such by the consumers, to protect the

distinctiveness of the trade mark. In such circumstances, the Canadian operation should preferably from the start or as early as possible when the world market justifies it, become owner of the registered trade mark, by filing an application or through assignment of the mark together with the goodwill. Exclusive distributorship and registered user agreement will always create problems when direct intervention is needed to prevent grey marketing of goods, legally marked abroad with the registered owner's trade mark.

The rights of the registered owner of a trade mark should be recognized when some degree of business independence from the control of a foreign parent can be shown and that a "Canadian" goodwill in the trade mark exists in fact. The absence of distinctiveness of the trade mark can always be raised and may be easy to show if the trade mark was recently assigned, for the purpose of litigation, specifically to protect the territory from grey marketing.

OTHER CONSIDERATIONS

Canadian copyright

If any copyrighted material is associated to the products sold, an assignment of copyright in said material by its foreign owner to the Canadian distributor or licensee may prevent parallel importation or grey marketing. Section 27(4) of the Copyright Act ((1985) R.S.C., c. C-42) provides civil remedies to prevent importation in Canada of any work that, if it had been made within Canada, would infringe a Canadian copyright. (see Les Dictionnaires Robert Canada SCC et al. v. Librairie du Nomade Inc. ((1987) 11 F.T.R., 44). Evidently, assignment of copyright may create other problems, amongst which, the loss of control by the owner over the copyright subsisting in his work.

In Wella Canada Inc. v. Pearlton Products Ltd. ((1985) 4 C.P.R. (3d) 287), the plaintiff alleged that copyrights it held with respect to packaging and inserts for haircare products that it sold in Canada were infringed by the packaging and inserts for haircare products imported from its U.S. parent corporation by the defendant. The court made no order in respect of copyright infringement.

Applications of the Free Trade Agreement to Canadian trade mark rights

At the beginning of the negotiations between Canada and the United States, there was a desire to eliminate non-tariff barriers between the two countries. It can be argued that, in fact, this could have eliminated causes of action based on intellectual property rights against a grey marketer who imports grey goods legitimately sourced within Canada or the United States. The Free

Trade Agreement was adopted in 1988 with nothing likely to be construed as affecting intellectual property non-tariff barriers.

There is, of course, some sections of general application such as article 102 which defines the goals of the Agreement, amongst which the following may be relevant for a grey marketing situation:

- a. Eliminate barriers to trade in goods and services between the territories of the parties;
- b. Facilitate conditions of fair competition within the free-trade area.

Article 105 provides that national treatment shall be accorded by each party to the trade of goods and services. Article 501 provides that national treatment shall be accorded in accordance with the existing provisions of GATT Rules. There is no specific article on intellectual property except a general one, article 2004, which provides that the parties shall co-operate in the Uruguay Round of multilateral trade negotiations and in other international forums to improve protection of intellectual property.

In the NESTLE case, the defendant filed a notice of motion for hearing at the time of the injunction application, seeking an order "soliciting the views of the government of Canada concerning the effect of Articles 102, 105, 501 and 2004 of the Free Trade Agreement upon the right of a Canadian purchaser of authentic name brand goods placed on the United States market by the trade-mark owner or with his consent, to resell such goods in Canada without interference by the trade mark owner or any other Canadian companies which are related to the trade mark owner or which otherwise derive any trade mark rights therefrom."

The motion was based on article 1808 of the Free Trade Agreement which states in part:

"The Party in whose territory the court or administrative body is located shall submit any agreed interpretation to the court or administrative body in accordance with the rules of that forum. If the Parties are unable to reach agreement on the interpretation of the Agreement at issue, either Party may submit its own views to the court or administrative body in accordance with the rules of that forum."

Since Strayer J. had decided not to issue the injunction against Edan Food, there was no need for him to consider whether the Free Trade Agreement would have provided a further defence. In any case, appealing to the Canadian and U.S. governments for an interpretation of the FTA would take so long that the application of the injunction would be futile.

If the FTA does not apply to grey marketing, the question remains open as to whether Canada would have to change its legislation to reduce intellectual property barriers to trade between the United States and Canada. This however should not be done before the United States agrees to eliminate its effective intellectual property barriers to imports from Canada and other countries, through the ITC (International Trade Commission).

Criminal sanctions

Under section 406 of the Criminal Code, everyone forges a trade mark who:

- a) without the consent of the proprietor of the trade mark, makes or reproduces in any manner that trade mark or a mark so nearly resembling it as to be calculated to deceive; or
- b) falsifies, in any manner, a genuine trade mark.

For the purposes of this section, the meaning of the words "trade mark" is defined in section 2 of the Trade Marks Act. This was confirmed in a recent decision of the Criminal Division of the Court of Quebec in R. v. Impenco Ltd. (an unreported judgment of Mr. Justice Louis Legault, C.Q. Montreal, dated July 11, 1990 No. 500-01-022447-897.)

The offences are created in sections 407 to 411 and the sentences are set out in section 412. Three of the offences can be relevant to our subject. Firstly, section 407 which provides that it is an offence to forge a trade mark with the intent to deceive or defraud the public or any person, whether ascertained or not.

Section 408, which provides that every one commits an offence if, with the same intent to deceive, passes off other wares or services as and for those ordered or required. This is the counterpart of the civil action provided in section 7(b) of the Trade Marks Act. Finally, section 409 provides that every one commits an offence who makes, has in his possession or disposes of a die, block, machine or other instrument, designed or intended to be used in forging a trade mark.

These sections came into play in a situation of grey marketing when the Crown laid charges against Impenco Ltd. for having manufactured and sold to grey marketers in Canada and abroad, boxes marked with the SEIKO trade mark (Seiko Canada was the complainant). The charges were laid under sections 406 and 409 of the Criminal Code (reproduction of the trade mark and possession of an instrument used to forge a trade mark). Impenco is a

manufacturer of boxes of all kinds. It is not engaged in any business related to the potential contents of the boxes that it manufactured.

To prove the infractions of sections 406 and 409, the court found that the Crown had the burden of showing that the defendant was in possession of the instrument to forge and that the owner's consent to the reproduction of its mark had not been given.

Three main defences were submitted by the defendant. Firstly, the accused argued its lack of criminal intent, secondly, its good faith, a defence specifically set out in section 409(2) to negate the *mens rea* required in subparagraph (1) and, thirdly, that the trade mark owner had tacitly consented to the reproduction of its mark.

The court found that Impenco was dealing with retailers active in the grey market of the SEIKO products which, just like authorized distributors, were responsible for the packaging and presentation of the SEIKO products. The court concluded that the criminal intent of the accused was not proved and that the accused had acted in good faith and in the ordinary course of its business.

Finally, in view of the fact that the products eventually put into the boxes were genuine SEIKO watches, even when sold by unauthorized distributors, the court concluded that no evidence existed to show the absence of consent by the owner of the trade mark.

Conclusion

The legal uncertainty created by grey marketing in a country where free competition is the rule and monopoly is the exception, is probably a matter for legislative intervention. In the absence of a known set of rules, hopefully applicable to all and in all situations, future decisions, like past decisions, will be based on the appearing equities or inequities of a factual situation and may very well cause further confusion.

