



SUPREME COURT OF CANADA SIDES WITH GREY-MARKETER IN ITS COPYRIGHT INFRINGEMENT BATTLE WITH KRAFT

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In what may be hailed as a landmark decision concerning the use of copyright as a means to prevent parallel importation in Canada, a heavily divided Supreme Court of Canada reversed both the lower courts' decisions by ruling that a grey-marketer's activities did not constitute infringement by commercial importation and distribution of artistic works in Canada, pursuant to Section 27(2)(e) of the *Canadian Copyright Act* [*Euro-Excellence Inc. Kraft Canada Inc.* 2007 SCC 37 (Docket 31327) July 26th, 2007].

The Facts

Kraft Canada Inc. ("KCI") is the exclusive Canadian distributor of two brands of chocolate bars manufactured in Europe for its parent companies, Kraft Foods Schweiz AG ("KFS") and Kraft Foods Belgium SA ("KFB"): Swiss-made Toblerone and Belgium's Côte d'Or. Euro-Excellence, an importer of high-end confectionary products, had legally obtained access to Kraft's Toblerone and Côte d'Or branded chocolate bars through an unnamed third-party distributor of Kraft foods in Europe. KFB registered copyright in Canada in the artistic works appearing on the Côte d'Or chocolate bars packaging and KFS did the same with the logos appearing on the Toblerone chocolate bars (logos of an elephant and mountain appearing on the candy's wrappers). Kraft Canada Inc. was granted an exclusive licence to produce and reproduce the copyrighted works in Canada. Kraft Canada Inc. and the Kraft parent companies subsequently accused Euro-Excellence of copyright infringement in the artistic works.

Lower Court rulings

Both the Federal Court of Canada and the Federal Court of Appeal had ruled that the activities of Euro-Excellence constituted infringement pursuant to Section

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27(2)(e) of the *Canadian Copyright Act*. Following a Federal Court injunction, Euro-Excellence had been ordered to pay KCI \$300,000 in damages and conceal the artistic works with covering wrappers.

Supreme Court of Canada decision

On appeal to the Supreme Court of Canada, Euro-Excellence raised two issues:

1. The logos in question were “incidental” to the actual chocolate bars themselves and therefore sales of the latter should not be found to be sales of the logos, thereby preventing s. 27(2) of the *Copyright Act* from being triggered;
2. There was no theoretical infringement of copyright since KCI’s parent companies were the copyright owners in Canada and even if in theory they had made the bars in Canada, this would be a breach of their exclusive licence contract with KCI rather than infringement of copyright.

In order to succeed in its action under Section 27(2)(e) of the *Copyright Act*, KCI needed to establish the following three elements:

- (i) that copyright subsists in the logos in question [all nine justices agreed that the logos were subject to copyright protection];
- (ii) that Euro-Excellence’s sales of the chocolate bars in question were “sales” of the logos appearing on the packaging in question [six of the nine justices agreed by stating that the law does not distinguish between the sale of goods that feature copyright elements on packaging versus the sale of goods that are themselves the subject of copyright, while the remaining three justices held that s. 27(2) is not triggered by the sale of products that feature only “incidental” elements that are covered by copyright]; and
- (iii) that Euro-Excellence imported works which had they been made in Canada by the same persons who in fact made them abroad (KCI parent companies), the actual makers would be found to have in theory infringed copyright in Canada [five out of nine justices responded positively while the remaining four justices said no].

On this last point, the Court has seemingly clarified the limits on exclusive copyright licenses. The Kraft companies argued that the KCI parent companies (KFB and KFS) would have infringed copyright if they had produced the copyrighted works in Canada because they had licensed same to KCI. In rejecting this argument, the Court held, in its reasons for judgement delivered by Justice Rothstein, that since the KCI parent companies had produced the artistic works at issue and were also the Canadian copyright owners in said works, there could be no infringement given that by definition, no person can simultaneously be owner and infringer of copyright.

Conclusion

While this decision is being welcomed by retailers as a victory for competition and free trade, the Supreme Court of Canada has not precluded brand owners from effectively restraining grey-marketing activities in Canada; it has conceivably left the door open to copyright holders to do so by assigning copyright to the local rights holders¹. However, since multinationals may unlikely cede logo rights to subsidiaries due to loss of control issues and tax implications, not to mention that it may not even work², the spoils of victory appear to indeed be sweet for parallel importers operating under circumstances similar to those outlined in the present decision.

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¹ However, it is worth noting that the exclusive licence versus assignment distinctions made by Justice Rothstein were rejected by five out of the nine justices.

² Justices Bastarache, LeBel and Charron suggest that even an assignee may experience difficulty in using copyright to curb parallel imports where the copyrighted element is only “incidental” to the consumer goods in question. Moreover, some members of the Court also expressed concerns that Kraft was trying to use copyright law as a barrier to trade.

