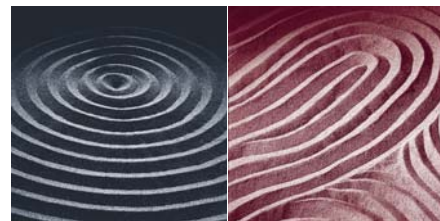


MILLER THOMSON LLP

Barristers & Solicitors
Patent & Trade-Mark Agents

2700 Commerce Place
10155-102 Street
Edmonton, AB Canada
T5J 4G8
Tel. 780.429.1751
Fax. 780.424.5866
www.millerthomson.com



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Copyright – A New Weapon in the War Against Grey Market Goods?

Robert D. McDonald
Stephen G. Parker
April 24, 2006

Kraft Canada Inc. v. Euro Excellence Inc., [2005] F.C.J. No. 2082, 2005 FCA 427.

Procedural History:

This case is an appeal of the Federal Court of Canada decision in *Kraft Canada Inc. et al v. Euro Excellence Inc.*, [2004] 4 F.C.R. 410, 2004 FC 652, which granted a permanent injunction ordering Euro Excellence to cease selling, distributing, exposing or offering for sale copies of the protected works. Mr. Justice Harrington required them to cover over the artwork on the packaging, price lists and other material prior to selling, distributing, exposing or offering for sale “Côte d'Or” and “Toblerone” confectionary products, and in particular chocolate bars. Euro Excellence was also ordered to pay Kraft Canada the sum of \$300,000, based on the profits made from sales.

In this appeal, Euro Excellence seeks to quash the injunction and the award of damages while Kraft Canada cross-appeals for an order varying the wording of the injunction to prohibit Euro Excellence from importing and possessing the works protected by Kraft Canada’s copyright. Although the Côte d'Or elephant is also impressed within the actual Côte d'Or chocolate itself, Kraft has made it clear that it is not trying to stop Euro Excellence from selling the chocolate, but only from distributing it within wrappers which contain the artistic works registered as copyright.

Facts:

Euro Excellence had a three year exclusive Canadian distribution contract with Kraft Foods Belgium S.A. (“KFB”), the manufactures of the Côte d'Or line of confectionary, which ended in December 2000. Kraft Canada began distributing the Côte d'Or line in Canada pursuant to a contract with the same manufacturers in 2001. In early 2001, Euro Excellence was still distributing Côte d'Or products in Canada but it was obtaining them from an unnamed source in an unnamed European country. Furthermore, Euro Excellence began to parallel import and distribute Toblerone chocolate bars, which Kraft Canada Inc. had been distributing in Canada since 1990.

In order to thwart Euro Excellence, in October 2002, KFB registered the three Côte d'Or copyrights in Canada in the artistic category and later that day, an exclusive licence agreement between it and Kraft Canada was also registered. Also on that same day, Kraft Foods Schweiz AG (“KFS”), the manufactures of the Toblerone line of confectionary, registered the Toblerone bear within the mountain as a copyright in the artistic category and registered a similar exclusive licensing agreement with Kraft Canada. Nevertheless, Euro Excellence continued to import and distribute the Côte d'Or and the Toblerone lines of confectionary in Canada with packaging containing the protected works.

Issues:

The issue in this appeal is whether the respondent Kraft Canada, which has held an exclusive licence since October 2002 to produce, reproduce and distribute for Canada the copyright in the Côte d'Or elephant and the Toblerone bear within the mountain, may, under subsection 27(2) of the *Copyright Act*, R.S.C. 1985, c. C-42 (the “Act”), compel the appellant, Euro Excellence, to cover over the Côte d'Or elephant and the Toblerone bear within the mountain, which are reproduced on the wrappers of the Côte d'Or and Toblerone products sold by it. If so, should a determination of the profits be made as the Trial Judge did?

The issue in the cross-appeal is whether the Court of Appeal should grant Kraft Canada's request for an order of prohibiting Euro Excellence from possessing the products in issue or importing them into Canada for the purpose of doing anything referred to in paragraphs 27(2)(a) to (c) of the Act.

Law:

Section 27(2) of the Act states:

Secondary infringement

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,
- (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.

Analysis & Outcome:

Euro Excellence argued that the mountain, bear, elephant, Côte d'Or script and red shield were not original illustrations and accordingly were not entitled to copyright protection. With respect to Toblerone, they questioned the originality of a work depicting a snow-covered mountain, with some of the snow in the shape of a bear. Euro Excellence also argued that the chain of title leading to Kraft Canada's licence for Côte d'Or was defective. Furthermore, they claimed that the statutory provisions regarding copyright must be interpreted narrowly so as not to impinge upon provincial jurisdiction in relation to property and civil rights. Finally, Euro Excellence stated that copyright cannot be used to create a monopoly that would infringe upon a free market exchange of goods. All of these arguments were rejected by the Trial Judge and the Court of Appeal could not find any error on his part in respect of the questions addressed above.

Nevertheless, the Court of Appeal considered whether Euro Excellence violated subsection 27(2) of the Act. They held that reproductions of protected works that are made outside Canada, even by copyright holders KFB and KFS, may not be imported into Canada by Euro Excellence for the purpose of doing anything referred to in paragraphs 27(2) (a) to (c), without there being a secondary infringement of Kraft Canada's copyright. This is so because Kraft Canada has an exclusive right of reproduction for Canada, even as against KFB and KFS, and Euro Excellence knew that Kraft Canada's exclusive rights in the two works had been registered for Canada.

With respect to the quantification of damages, the Court of Appeal concluded that the determination of the \$300,000 award was unsatisfactory. Therefore, they referred the matter back

to the Trial Judge so that he could clarify the parties' submissions and re-determine the profits derived from the infringement.

Kraft Canada also sought to prohibit Euro Excellence from possessing and importing the products for the purposes of sale, renting out, distribution or exhibition to the public. The Trial Judge had already ordered Euro Excellence to cease selling, distributing, exposing or offering for sale copies of the protected works. The Court of Appeal said that it was not contrary to the Act for Euro Excellence to simply import into Canada and to possess Toblerone and Côte d'Or chocolate bars in wrappers which display the copyrighted artistic works. What was important was the purpose for which they were imported and possessed. The Court of Appeal held that the cross-appeal by Kraft Canada was superfluous because Euro Excellence could not sell, distribute or offer the protected works for sale. Therefore, Euro Excellence was also incidentally prohibited from possessing or importing them for the purpose of selling, distributing or offering them for sale. They could however, possess and import the protected works for other purposes if they desired.

Conclusion:

In summary, the Court of Appeal held that because Kraft Canada had exclusive licences to produce and reproduce the protected works in Canada and because Euro Excellence received notification of the existence of the two exclusive licences, Euro Excellence had infringed the copyright by importing and selling the Toblerone and Côte d'Or products in packaging that contained the protected works. A copy of a work protected in Canada that is distributed outside Canada may be an infringing copy when it is imported into Canada. In this case, the importation of the protected works for sale, etc., in the circumstances described in paragraph 27(2)(e) of the Act, was a secondary infringement. Therefore, Euro Excellence was effectively enjoined from importing and possessing the products for the purposes under s. 27(2). The appeal was dismissed except for the calculation of damages and the cross-appeal was also dismissed.