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Landlord Liability for Counterfeit Goods - What Every Retail Landlord Should Know

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*You are tearing around your local shopping mall desperately looking to buy a birthday gift for a significant female in your life. You spot what appears to be a very nice quilted **Chanel** tote bag for \$75. You hesitate. Seems rather affordable for a luxury brand but then again the sales assistant did seem very genuine, assuring you that all their merchandise was "real". Later on as you gingerly proffer the gift you observe a gamut of emotions. The expression on her face changes from that of eager anticipation to an incredulous frown, to a look of abject disgust. She realizes the gift is nothing more than a cheesy knockoff.*



You're not the only one who could be in hot water. Companies with protected trademarks in high-end luxury brands are now going after the landlords of markets and shopping centers when tenants engage in the sale of counterfeit goods.

Counterfeit reproductions are imitation goods which deceptively represent their content and origin and commonly display fake labels of real trademark owners. The idea is to fool consumers into believing that the goods are genuine and this results in substantial losses to companies who have invested time and expense in the development and marketing of their products.

The counterfeit trade has been a long source of frustration for intellectual property owners. Traditionally, the fight against the sale of fake designer products has been directed towards the retailers, but retailers often have no assets worth pursuing through the courts or, in some instances, they simply disappear before the case goes to trial. As a result, intellectual property owners are now looking to the courts and seeking to impose liability on landlords for the infringing acts of their tenants.

A few years ago, anyone walking down Canal Street in New York City could be expected to be accosted by a variety of stall vendors offering fake goods from any designer worth coveting, including, **Gucci**, **Versace** and **Louis Vuitton**. Not any more. In 2005, Louis Vuitton obtained a preliminary injunction against the owner of seven Canal Street properties alleging that the landlord, Richard E. Carroll, was contributory liable for counterfeit sales by its tenants, benefited financially therefrom and had

proactively relocated tenants from one property to another to greater conceal infringing activity. The injunction ordered Carroll to: (i) evict all tenants found selling counterfeit Louis Vuitton goods; (ii) include a specific rider in all new leases prohibiting the sale of counterfeit goods; and (iii) require tenants to submit to random spot-checks of their stores to detect infringing activity.

Similarly in China, the international brands [Burberry](#), [Chanel](#), [Gucci](#), [Louis Vuitton](#) and [Prada](#) were successful in their joint legal proceedings against the landlord of the Beijing Silk Street Market. The court found that by virtue of operating the market, the landlord had provided a convenience for the tenants to engage in counterfeit sales and that as soon as the landlord became aware of the counterfeit sales there was an obligation to eliminate all such activity.

However, a recent decision of the [Australian Federal Court](#) has taken a different approach. In [Louis Vuitton Malletier SA v. Toea Pty Ltd](#), the Court held that manufacturers and suppliers cannot reasonably expect a landlord to police trademark infringement, nor can they expect a landlord to be able to distinguish between counterfeit and authentic goods. The Court distinguished between the legal right of a landlord to control the range of goods being sold on its premises and the physical ability to prevent all infringing sales. The Court stated that it is impossible for a landlord to permanently control the actions of its tenant vendors to prevent infringement, except in the case of the most blatant misconduct and, in the absence of evidence of a common purpose to cause damage, liability will not attach to a landlord.

This decision makes common sense and it is one which a Canadian court would likely adopt. In Canada, there is no specific legal authority that a landlord is liable for the actions of a tenant, whether jointly, vicariously or otherwise. A tort will only be imputed to joint tortfeasors where there is a concerted action to a common end or a conspiracy with all participants acting in furtherance of the wrong. Furthermore, the [Ontario Superior Court](#) addressed this issue in [Davisco International Inc. v. Protase Separations Inc.](#), recognizing that if a landlord derives benefits by leasing premises to a tenant where infringement occurs, that does not mean the landlord has derived benefits from the infringing activities. An examination of the business relationship between the parties is key when determining whether a landlord and tenant could be considered to be operating a joint venture. As such, in the absence of some further act of complicity between the parties, the act of being a landlord alone is not enough to infer liability for infringement committed by a tenant.

Nonetheless, landlords should be on notice of the possibility of being named as joint defendants, alongside rogue tenants trading in counterfeit goods. Many landlords may wish to take proactive steps so as to ensure that no infringing activities take place on their premises. In particular, landlords should consider specific warnings to tenants that such activities may lead to default proceedings under the terms of their leases. Landlords should also consider including restrictive covenants in lease agreements prohibiting all actions that infringe third party intellectual property rights. Turning a blind eye to such illegal activities could be viewed as willful acquiescence on the part of a landlord. On receipt of "cease and desist" notices from intellectual property owners, landlords should immediately consult with legal counsel to discuss the best course of action and, if possible, avoid a court action.

Here in British Columbia, while a case of this kind has yet to come before the courts, retail landlords have already reported receiving "cease and desist" type notices from trademark owners, signaling the increased efforts being made to step up the fight against the global counterfeit trade.

For more on the Knock Off Trade in Vancouver see "[Vancouver: Canada's Counterfeit Capital](#)" in the June 23 edition of the *Vancouver Sun*.

- [Larry Munn](#)



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