LANDLORD LIABILITY FOR TRADEMARK AND COPYRIGHT INFRINGEMENT - COMING SOON TO CANADIAN PREMISES NEAR YOU?

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A proceeding commenced in Ontario in 2016 by Louis Vuitton may alter the status quo and provide rights holders with a new enforcement strategy against intermediary landlords who knowingly assist in or facilitate the sale of counterfeits by their tenants. In the Louis Vuitton proceeding, it is alleged that the landlords are liable for contributory trademark and copyright infringement of and/or are vicariously liable for the infringements by their tenants. In this paper we review the position on intermediary liability of landlords in several countries and provide a summary of the options and strategies available in Canada to pursue a cause of action against an intermediary landlord for intellectual property infringements by its tenant.

Introduction

Counterfeiting and piracy continue to grow each year despite the concerted efforts of rights holders to tackle these issues. Several factors contribute to the problem, including globalization of the economy, the ease of international trade, the sophistication of today's infringers, and the multiplicity of supply chain intermediaries who together facilitate the ultimate supply of such goods to consumers.

Direct infringers generally perceive legal actions taken against them by rights holders as mere operational costs in what is otherwise a very lucrative business. Rights holders have therefore begun shifting their focus to a variety of intermediaries involved in the supply chain, including landlords, transport operators, suppliers of parts and materials, operators of online platforms, sale and social media sites, Internet service providers, and payment processors.
Pursuing intermediaries, in addition to the ultimate sellers and their suppliers, offers a potentially more effective solution to rights holders by either allowing them to hamper the infringer’s supply chain, or to prevent the manufacture of the infringing goods altogether. In today’s climate of enhanced corporate compliance and corporate social responsibility, this solution is more effective as legitimate intermediaries often prefer to be seen as publicly cooperating with rights holders to address counterfeiting concerns.

This article focuses on landlord liability for counterfeiting, particularly in the context of trademark and copyright infringement, where landlords provide the physical site for the sale of infringing goods. We begin with a brief summary of the bases for landlord liability in the context of trademark infringement in the United States, China, Australia, and the European Union. We then consider the readiness of the Canadian legal landscape for such a claim, and the potential causes of action on which such a claim might be based.

Landlord Liability in the United States, China, Australia, and the European Union

The United States

The United States courts have long grappled with the question of whether a landlord may be held liable for the sale of counterfeit goods by its tenants.

As early as 1982, the Supreme Court of the United States recognized the concept of contributory liability for trademark infringement with respect to manufacturers and distributors in Inwood Laboratories Inc v Ives Laboratories Inc, 456 US 844 (1982). The Court stated that to establish contributory liability for trademark infringement, a plaintiff must show that the defendant either intentionally induced a third party to infringe or that it continued to supply a product to the infringer knowing that the product would be used to facilitate infringement.

Building on the principles set out in Inwood Laboratories, the United States Court of Appeals for the Seventh Circuit confirmed that a landlord who rents a premises to a tenant knowing, or being willfully blind to the fact that the premises is being used to sell counterfeit merchandise may be contributorily liable for trademark infringement: Hard Rock Café Licensing Corporation Inc v Concession Services Inc., 955 F (2d) 1143 (7th Cir 1992). This finding was confirmed in subsequent actions.

Despite having existed for more than a decade, the concept of landlord liability in the context of intellectual property infringements first garnered significant attention in 2005,
when Louis Vuitton Malletier SA set its sights on New York's Canal Street, a notorious market for counterfeits. Louis Vuitton commenced an action against the landlord and owner of several buildings on Canal Street, seeking an injunction enjoining him and his tenants from selling counterfeit Louis Vuitton goods. To establish knowledge, Louis Vuitton relied on its prior written notifications of infringing conduct to the landlord and the fact that the premises had also been subject to several nuisance abatement actions by New York City authorities. The United States District Court of the Southern District of New York granted Louis Vuitton a preliminary injunction enjoining the landlord and his tenants from selling counterfeit Louis Vuitton merchandise on the properties. Pursuant to an order of the Court, the landlord agreed to evict tenants found to be selling counterfeit goods and allow routine inspections of the properties for counterfeit goods, among other things. This decision was widely lauded as a significant step forward in the landlord liability space, and led to a string of subsequent cases.

China

Around the same time, Louis Vuitton, together with other brand owners, including Burberry, Gucci, Prada, and Chanel, turned their attention to Beijing's Silk Market, another notorious counterfeiting hotspot. The brands filed actions against several infringing vendors and the landlord of the market itself. They argued that the landlord, who was repeatedly notified of infringing conduct by specific vendors had knowledge of the infringing activities occurring on the property and intentionally continued to facilitate the sale of counterfeits by renting the premises to the known infringers. The Beijing No. 2 High People's Court found that following notification of the infringing activities of its tenants, the landlord had an obligation to act in a "timely and effectively" manner to prevent such infringements from continuing. By failing to take any such steps, the landlord was found jointly and severally liable for the infringements. The decision was upheld on appeal.

China has since codified landlord liability for trademark infringement in national and local legislation and regulations. Under this legislation, a landlord may be held: (i) jointly and severally liable for aiding and abetting a third party in the commission of an infringement of the exclusive right to use a registered trademark; or (ii) contributorily liable for trademark infringement if the landlord intentionally facilitates or assists a third party in committing an infringement by providing business premises to the third party. Rights holders have successfully relied on this legislation and various local regulations to prosecute landlords alongside their infringing tenants.
Australia

Diverging from the global trend, the Australian Federal Court declined to hold either the landlord of a market or its manager liable as joint tortfeasors for the trademark infringements of its tenants in Louis Vuitton Malletier SA v Toea Pty Ltd, [2006] FCA 1443. At the outset, the Court noted that there was no provision in Australian trademark legislation that "extends civil liability to 'secondary' tortfeasors"; therefore any argument with respect to liability must be based in general tort law. To establish joint liability in tort, Louis Vuitton was required to show that the market owner and the tenants acted "in concert in committing the tort" for the purpose of furthering a "common design". Louis Vuitton argued that the common design was the financial success of the market achieved through the individual success of the vendors. The Court refused to accept Louis Vuitton's argument that this shared goal could constitute a common design. Further, the Court stated that it would be "virtually impossible" for the market owner to prevent its tenants from selling counterfeit goods on the premises, and that the landlord had taken effective steps to halt infringement when it accepted assurances from its tenants that they would cease sales of counterfeit goods on the property. It still remains an open question in Australia whether different circumstances, where the landlord takes less steps to halt infringements on its premises than in the Louis Vuitton case, might give rise to landlord liability for intellectual property infringements by its tenants.

Europe

In 2016, the Court of Justice of the European Union (CJEU) in Tommy Hilfiger Licensing and Others, C-494/15, EU:C:2016:528, was asked, by way of reference from the Czech Supreme Court, to interpret Article 11 of Directive 2004/48/EC of European Parliament and of the Council, to determine whether landlords who rent space to third parties selling counterfeit goods are "...intermediaries whose services are used by a third party to infringe an intellectual property right", and if so, whether the conditions for an injunction granted against a brick and mortar landlord pursuant to Article 11 should be the same as the conditions set out in L'Oreal and Others, C-324/09, EU:C:2011:474.

Tommy Hilfiger was commenced in the Czech Republic by several rights holders including Tommy Hilfiger, Burberry, and Lacoste against the owner of Delta Markets in Prague. Relying on Czech law, the brands requested that the market owner, who leased the stalls to vendors, be enjoined from continuing to lease stalls to tenants known to sell infringing products.
Building on its decision in L'Oreal, the CJEU found that there was no distinction to be made between an online marketplace and a brick and mortar marketplace; therefore brick and mortar landlords may be equally liable as online intermediaries in providing a service used for infringement. The Court also noted that the conditions for an injunction against a brick and mortar landlord are identical to those in L'Oreal, being that the injunction is "effective and dissuasive".

**Landlord liability in Canada**

Canadian courts have yet to consider a "traditional" landlord liability action for intellectual property infringements by its tenants. Thus far, the Federal Court of Canada has issued decisions in two actions where a landlord was found liable for the infringements of its tenants, though in both cases the landlord was found to be an active participant in the tenant's business and to have sufficient control over that business: Chanel v Lam Chan Kee Co, 2015 FC 1091 and Louis Vuitton Malletier SA v Yang, 2007 FC 1179. While these decisions are not true intermediary landlord liability cases, they do demonstrate the courts' readiness to extend liability beyond the infringer itself.

In June 2016, Louis Vuitton commenced an action in the Ontario Superior Court against flea market owners. The company claims the landlords are directly, contributorily and vicariously liable for the advertising, sale and offering for sale of counterfeit Louis Vuitton merchandise by the landlords' vendors as they knew, ought to have known, or were wilfully blind to the sale of the counterfeits on their premises and by their actions or omissions contributed to or facilitated the harm to the brand. Amongst the usual infringement remedies, Louis Vuitton is seeking an order directing the landlords to terminate leases with vendors selling counterfeits.

The Louis Vuitton proceeding against the landlord, if successful at trial, may provide rights holders with new enforcement strategies against intermediary landlords who knowingly assist in or facilitate the sale of counterfeits by their tenants.

Below, we review the law of joint tortfeasorship (contributory infringement and vicarious liability) in Canada and also consider a recent decision of the Supreme Court of Canada that might assist rights holders in taking action against landlords.

Both contributory infringement and vicarious liability are principles of joint tortfeasorship. Joint tortfeasorship is a common law doctrine of tort law where two or more persons or entities can be jointly liable as tortfeasors where:
i. one is the principal of or vicariously liable for another; or
ii. there is a concerted action between them to a common end (sometimes referred to as "contributory infringement" in the intellectual property field).

Vicarious Liability

Under the doctrine of vicarious liability, a principal may be legally responsible for torts committed by its agent. This begs the question, what is an agent? Agency is the relationship that exists between two persons when one (the agent) is considered in law to represent the other (the principal) in such a way as to be able to affect the principal's legal position. In order to establish liability of the principal, the infringing acts of the agent must fall within the express, implied or apparent authority of the agent. It is also important that the agent be under the control of the alleged principal. The greater that control, the greater the likelihood that the principles of agency apply. When an agency relationship is found, the principal will be jointly and severally liable with the agent who commits the tort.

Under traditional vicarious liability law, in examining the facts to determine whether an agency relationship exists, the courts will look at the nature of any consent provided by the parties and the authority given to the alleged agent.

In regard to the sale of counterfeits in Canada, to successfully find liability against a landlord as a principal of its tenant, one must have evidence to prove that the relationship is a close one where the landlord controls the activities of the tenants with respect to what they sell and the tenant's intellectual property infringing activities result from instructions given by the landlord. It may also be necessary to prove that the tenant's infringing activities would not have occurred but for the instructions, knowledge and assistance of the landlord.

At trial, evidence going to the nature of the relationship will be materially important. For example, if the evidence demonstrates that the landlord was aware of the ongoing intellectual property infringements but played only a minor role in an arm's-length tenant's business, the facts may not support a claim for vicarious liability. The more knowledge the landlord has of the intellectual property infringements and the more control the landlord exerts over the tenant, the more likely a claim is to succeed. For example, in both Chanel v Lam Chan Kee Co and Louis Vuitton Malletier SA v Yang, the facts pointed to the landlord having the requisite knowledge of the infringing activities and control over the primary infringer; so liability was found to lie against the landlord. Even though the Chanel v Lam Chan Kee Co case was primarily focused on the direct liability of the landlord/owner, the facts are useful to demonstrate how control by a landlord over a
A Concerted Action to a Common End (Contributory Infringement)

Under the common law doctrine of acting pursuant to a common design, a landlord may be jointly liable with its tenants for infringements of its tenants where the landlord has substantially assisted the tenant to infringe. While there is no bright line test for what level of assistance will attract liability, it is clear that a trivial amount of assistance would not be sufficient to establish liability against a landlord.

For the doctrine to apply, three conditions must be met:

- the landlord must have assisted the commission of the infringement by the tenant;
- the assistance must have been pursuant to a common design on the part of the landlord and the tenant that the act be committed; and
- the act must constitute a tort as against the rights holder.

A fourth factor usually considered in the factual matrix is the extent to which the landlord has knowledge of the actions of its tenants. Without this knowledge, it seems unlikely that a landlord will be held to have pursued a "common design" with its tenants and be found liable. It is clear, however, that even where the landlord knows of the infringing activities of its tenants, the other three factors must also be satisfied.

Canadian courts have emphasized that the tort must be kept within reasonable bounds. While courts may find liability where a party assists a primary actor in the commission of a tort, they will likely decline to do so where a party merely facilitates the tort, even if it does so with knowledge of the primary actor's intentions. To lower this bar may be to impose liability in circumstances where it is unjustified, even for public policy reasons.

Applying the traditional test articulated above to the sale of counterfeits, for a landlord to be found liable, a plaintiff must show that the landlord somehow aided, abetted, induced, or procured in the commission of the intellectual property infringements and that he/she committed these acts in concert with the tenant with a common goal in mind and with specific knowledge of the infringements. To establish this, a plaintiff must gather relevant evidence, which might include evidence of communications between the landlord and tenant showing that the landlord encouraged the tenant to sell counterfeits, or evidence that the landlord and tenant were engaged in a commercial venture above and beyond the lessor/lessee relationship.

Evidence establishing the landlord knew of the intellectual property infringements will also
be material. For example, the landlord should have specific knowledge, rather than a generalized knowledge, of the sales by the tenant of counterfeit products. For this reason, rights holders ought to formally notify the landlord of a tenant's intellectual property infringing activities to fix the landlord with knowledge. Other facts such as police raids on the landlord's premises may also serve to establish that the landlord had the requisite knowledge.

The question remains: what if the landlord has knowledge of the intellectual property infringements but the evidence does not prove that the landlord and tenant acted pursuant to common design that the acts of infringement be committed?

**A New Basis for Liability?**

A June 2017 decision of the Supreme Court of Canada, Google Inc. v. Equustek Solutions Inc, 2017 SCC 34, suggests at least in the law of equity, a third party may be held to owe some form of a duty to assist a rights holder in preventing infringement of its rights. If this principle were extended to cover the liability of a landlord for facilitating (rather than inducing) infringement by its tenants, it could be a valuable tool for Canadian rights holders.

In the Google case, it was held that Canadian courts have jurisdiction to make orders against search engines like Google who, even though they themselves are not guilty of any wrongdoing, facilitate the infringement by defendants of trademark rights online. Although there were several bases relied upon by the Court to make this finding, one basis is particularly relevant to this paper: the equitable jurisdiction of courts to make orders against third parties that facilitate the commission of a wrong or an infringement. The Court in Google referred in part to the decision of the English Court of Appeal in Cartier International AG & Ors v British Sky Broadcasting Ltd & Ors, [2016] EWCA Civ 658, which affirmed the jurisdiction of English courts to make blocking orders against Internet service providers requiring them to disable access to websites that offered counterfeit goods for sale.

In Cartier, the Court held that injunctive relief could be awarded against non-party Internet service providers whom were not accused of any wrongful act and had not engaged in a wrongful act. They were innocent but because the Internet service providers were held to have knowledge of the intellectual property infringements that they were unwittingly facilitating they were ordered to block access to certain websites by their customers so as to limit any further facilitation of infringement. Knowledge by the Internet service
providers of the on-going infringements was a key part of the decision by the English Court to grant an injunction against a non-party.

So how can the Google decision be used to assist in enforcement against landlords? The authors view two primary options. The first option would be to start a proceeding against a tenant, put the landlord on notice of the intellectual property infringements, and, if the landlord fails to take meaningful steps to address the infringements, seek an interlocutory order enjoining the landlord from further facilitating the intellectual property infringements. The second option would be to rely upon the equitable principles of the Google decision as grounds for seeking relief against a landlord on the basis that a landlord’s knowledge of the intellectual property infringements and the landlord’s continued facilitation of the infringements is sufficient to provide the Court with equitable jurisdiction to grant a permanent injunction over the landlord after trial to cease facilitating the infringements.

Takeaways

To establish liability over a landlord in Canada for a tenant’s sales of counterfeit products, generally speaking a rights holder needs to prove the elements of knowledge and control sufficient to prove joint tortfeasorship. As the case law in Canada develops, cases that have facts proving a high degree of knowledge and control are likely to be the most successful. It is hoped that the Louis Vuitton proceeding in Ontario will establish jurisprudence directly on this point i.e. that a landlord can be liable for the infringing activities of its tenant in broader circumstances than at present under Canadian law.

Rights holders wishing to enforce against landlords will need to take steps to ensure that the landlord has the required knowledge and that a good evidentiary record exists for use at trial. This can be done before proceedings are commenced through cease and desist letters, undercover investigations, and working with the relevant authorities to have raids conducted on the landlord's premises. It can also be done at trial by proving evidence of previous civil or legal proceedings against the tenants and the landlord's knowledge of these events. Where a landlord thereafter fails to take meaningful steps to decrease the infringements, or where the landlord continues to facilitate the infringements, a stronger case may exist for liability.
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