

The Landlord, the Knock Off, the Potential Liability

August 21, 2008

By Albert Formosa

Could a Canadian landlord be found liable for its tenants' infringement of copyright and trademarks rights? While Canadian courts have not yet dealt with this issue, it has been considered in other jurisdictions, with conflicting results.

A Look Abroad

In China, the landlord of the Silk Market was found liable for its tenants' trademark infringement in a proceeding brought by North Face. The Beijing No. 2 Intermediate People's Court held that the landlord had an obligation to strictly manage the market, including a duty to verify the source of goods and the authenticity and legality of the proof of trademark authorization. In an earlier decision, the Beijing High People's Court had upheld a decision of the Supreme People's Court in holding a landlord and tenant stallholders jointly liable for trademark infringement.

By contrast, the Australian Federal Court held that it is not reasonable to expect landlords to police trademark infringement and that landlords could not be expected to be able to distinguish between counterfeit and authentic goods. The Court held that there was a difference between the legal right of a landlord to control the range of goods being sold on its premises, and the ability to permanently control the actions of its tenants to halt all trademark infringement. It went further and held that landlords could not be held liable for their tenants' conduct except in the case of the most blatant misconduct.

Closer to home, in February 2008, police raided three buildings known as the "Counterfeit Triangle" in New York City, seizing goods with a street value of more than \$1 million, and obtaining an order temporarily closing the 32 stores. The stores were all in buildings owned by the same landlord, and the merchandise included Burberry, Coach, Fendi, Gucci and Prada knock-offs, according to police. The status of the landlord's liability in that case has not been settled.

A Canadian Perspective

A Canadian court has not finally determined the issue of a landlord's liability for trademark or copyright infringement. However, following international cases, it appears that a finding of liability would depend on three factors: the knowledge of the landlord, the control by the landlord, and the financial benefit to the landlord.

Knowledge

Canadian landlords have reported receiving cease and desist letters from major brands advising that certain tenants were infringing trademark and copyright rights, and that the landlord would be held liable. These cease and desist letters are likely designed to prevent landlords from claiming they never had knowledge of the activities on their premises. The more knowledge a landlord has about particular instances of infringement by its tenants, the more likely it will be held liable. If you receive such a letter, be sure to clarify the purpose of the cease and desist letter with the sender. Recently, a landlord was able to sufficiently address the cease and

desist letter by providing the sender with information regarding the particular tenant, which enabled the sender to go after the tenant directly.

Control

In the North Face case in China, the government agency in charge of industry and commerce had previously directed the landlord to review the effectiveness of its tenants' trademark authorizations and check the legal identity of its tenants and their business licenses. These types of obligations are not imposed on Canadian landlords, resulting in less likelihood of liability in most cases.

Financial Benefit

In the U.S., the operator of a flea market was found liable for the infringing activities of its tenants. The Court found that the landlord had knowledge of the infringing activities, and that it engaged in various other "policing" activities. As well, the landlord derived financial benefits from the infringing activities by booth rental, booth reservations, admission fees and concession sales. While the landlord at a shopping mall does not derive the same sort of financial benefits from its tenants (i.e. no admission fees), it's arguable that a percentage rent scheme could tie a landlord's financial benefit to the success of its tenants.

Assess your liability risk

While the issue of a landlord's liability for trademark or copyright infringement has not been finally determined in Canadian courts, given the international jurisprudence, it is likely just a matter of time before it is. If you have retail tenants, a liability assessment may be in order. The more knowledge of the infringing activities that you have, and the more control over your tenant's business and the more financial benefit you derive from the infringing activities, the greater your risk of liability.

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