

GOING AFTER THE MIDDLEMAN: LANDLORD LIABILITY IN THE BATTLE AGAINST COUNTERFEITS*

*By Daniel R. Plane***

I. INTRODUCTION

In the ever-escalating fight against fakes, brand owners are always on the lookout for new and more certain means to hit counterfeiters more efficiently and effectively where they live. Most brand owners view depriving counterfeiters of their freedom (by putting them in jail) or of their profits (by seizing their ill-gotten gains) as being the most effective means of attacking the widespread counterfeiting of their brands.

The problem is that putting infringers in jail is a difficult task, even in jurisdictions where counterfeiting is rampant and the law, at least on paper, appears crafted heavily in brand owners' favor. Lack of focus on intellectual property issues by national governments, apathy among populations who view the purchasing of fake items as almost a civil right, and the insufficient allocation of resources to police, from Customs and other authorities, all combine to make criminal punishment for counterfeiting an exception rather than a rule.

Seizing the profits of infringers can be just as difficult, even in countries with developed legal systems that prioritize intellectual property protection. This is due not only to the high cost of legal services and the low damage awards from courts judging these disputes, but also to the sophistication of the counterfeiters themselves. Counterfeiters, and particularly those working underground or operating effectively outside the reach or notice of the law, are as adept at hiding and laundering their ill-gotten

* This article is based on the author's presentation at the 2008 INTA Leadership Meeting in Boca Raton, Florida.

** Solicitor (Hong Kong), Registered Foreign Lawyer (Wisconsin, USA), Gide Loyrette Nouel (Hong Kong). Mr. Plane co-manages Gide's China Intellectual Property Practice. He previously managed the Asia-Pacific Anti-Counterfeiting Program of LVMH Fashion Group (which includes the LOUIS VUITTON brand, among others) from Hong Kong, and, prior to that, managed Nokia's Europe, Middle East and Africa Anti-Counterfeiting Program from the company's headquarters in Helsinki, Finland. He also worked as an IP litigator with firms in China and the United States and as Trial Counsel for the U.S. Department of Justice's Immigration and Naturalization Service, where he was hired under the Attorney General's Honor Graduate Program.

gains as they are at manufacturing cheap knock-offs of companies' products.

This is unfortunate, as clawing damages from counterfeiters denies them the true *raison d'être* for ripping off a brand. It also permits brand owners to plow recovered funds back into IP enforcement, which is a balance sheet item not generally viewed as a profit center by companies. Successfully recovering damages for the infringement of IP rights effectively results in counterfeiters' bankrolling actions against themselves and their fellow pirates.

Worse yet, it does not take long for a savvy brand-protection practitioner to recognize that even multiple successful raids in a given market are ineffective without continual action to halt the sales of fakes for a sustained period of time. Markets left unraided or unmonitored for a few months—and sometimes for as little as a few days—do not remain clean long, with fakes usually flowing back in once the pirates sense that the “heat” is off on a given brand and that the IP owner is shifting focus to other areas. Consequently, raids must be conducted regularly (perpetually, it sometimes seems) to ensure that markets in counterfeiting hotspots are kept marginally “clean” for any sustained period of time.

However disheartening, none of this is surprising, given that the potential profits to counterfeiters generally far outweigh the low risk of criminal punishment, and that the small negative impact of seizure of a few hundred pieces of their fake merchandise is viewed by most hardened counterfeiters as merely the cost of doing business. Accordingly, few if any brand owners ever realize “zero visibility,” or even “low visibility,” of counterfeits of their brands in markets in return for their investment.

If brand owners cannot drive counterfeiters out of business by driving them into bankruptcy, and cannot “scare them straight” by regularly jailing them, what remains? What will it take to fight the counterfeiters and really hit them where they live? Many brand owners believe the answer to these questions lies in the weak links in the counterfeiting chain: the well-moneyed middlemen who are inhabiting the points where the counterfeiters' unlawful world necessarily interacts with the lawful one.

II. LINKS IN THE COUNTERFEITERS' SUPPLY CHAIN

Counterfeiters cannot exist solely below ground and under cover. In order to get their fakes into the hands of consumers, they must necessarily interact with suppliers of services and material (most of them being legitimate) to ensure that they can effectively and efficiently manufacture, market, and ship their counterfeit products. The points where the counterfeiters' illicit world

intersects with the ostensibly law-abiding entities in our world—including the money paid to those entities by the counterfeiters—offer interesting opportunities to brand owners.

Indeed, brand owners have been seeking for some time to tie definitively the payments made by counterfeiters to their material and service suppliers to their illegal sources, and to establish the recipients' knowledge of the true source of those funds. When successful, injured brand owners have been able to enjoin the relationship between a counterfeiter and a supplier, to seize related tainted funds, or even to force the suppliers themselves to pay compensation for the harm done by their counterfeiting customers. If such outcomes become the norm, there is a good chance that onerous, well-publicized injunctions and large damages awards assessed against suppliers will make the cost of doing business with counterfeiters too high to justify the risks, and will persuade these supplier enterprises to shun counterfeiters and to clean up the suppliers' own businesses.

Links in the counterfeiting supply chain that are vulnerable to claims for damages include the entities below, which are listed roughly in the order of the manufacturing/export/wholesale/retail process.

A. Materials and Parts Suppliers

These entities provide buckles, buttons, snaps, plastics, leather, vinyl, labels, packaging, moulds, and other equipment and material used by counterfeiters to manufacture, assemble, and package counterfeit goods. Although branded parts and accessories, such as zipper heads, buckles, or moulds, are likely subject to seizure (particularly if the brand owner has trademark registrations for the marks covering such parts), unbranded components or materials offer little potential grounds for action. Moreover, the sheer number of potential raw material and parts suppliers, particularly in China and other developing countries, likely make it too costly to dedicate significant resources to shutting such suppliers down *en masse*.

B. Shipping Companies

Whether by truck, train, overseas container, or overnight express, shipping companies permit counterfeiters to move their fake products from factories to their markets, or even directly to consumers. Generally, establishing the requisite level of knowledge to warrant liability for damages for these shipping entities can be difficult, particularly in the case of larger express and shipping companies whose volumes and policies do not readily, or perhaps even reasonably, permit inspection of each parcel or container they handle for counterfeits. These factors, combined

with the sheer number of such companies and their vast resources to counter claims of brand owners, make these shipping companies unlikely targets for actions for counterfeiting liability.

C. Internet Service Providers (ISPs)

These companies are the Internet-savvy counterfeiter's link to the outside world. They are often responsive to threats of suit for infringement if they fail to remove infringing or objectionable content from their servers, but they frequently refuse to provide any solid detailed information on their counterfeiter customers, and they beg off any responsibility for policing their customers' online activities. Even if ISPs are cooperative, the ease with which a counterfeiter can move his website to another ISP—or even to another domain name with the same ISP—leaves the effectiveness of concerted actions against these entities open to question.

D. B2B or B2C Websites

Business-to-Business (B2B) and Business-to-Consumer (B2C) websites act as direct links between purveyors of counterfeit products and their customers. In the case of B2B websites, such as Ali Baba or Taobao, these links may be directly between factories in China and overseas wholesalers who are seeking larger quantities of goods for export. In the case of B2C websites, the link could provide a connection between a small-time seller of fakes in China and potential wholesalers overseas, or in the case of auction sites such as eBay, between a tourist who purchases a few fake bags during a trip to China and who wants to sell them upon his or her return home and potential bidders.

The potential scale of infringements arising from online sources is staggering, considering the anonymity offered to counterfeiters by the Internet and the fact that there are about 1.5 billion potential customers throughout the world¹ who can access websites that are hawking fake products and offering illegal downloads.

Actions against facilitators of online infringement offer a mixed bag, however, with courts and authorities still struggling to keep up with the new fact patterns and complex technical, legal, and jurisdictional issues arising in the Internet context. For example, eBay lost three related cases to several companies of the LVMH holding group in June of 2008. Those companies, Louis

1. See <http://www.internetworldstats.com/stats.htm>. Internet penetration currently stands at 22% of the entire global population, and has climbed over 300% from 2001 to 2008.

Vuitton Malletier, Christian Dior Couture, Guerlain, Givenchy, Kenzo, and Parfums Christian Dior, successfully argued that harm to their companies from ongoing sales of counterfeits of their products openly sold on eBay merited a combined damages award of US \$63 million.² In addition, Guerlain, Givenchy, Kenzo, and Parfums Christian Dior sought and obtained an injunction against eBay that prohibited it from selling *any* products bearing their brands, even if those products might be genuine.³ That case is essentially the mirror image of a U.S. district court's decision in a case brought by Tiffany, in which the court rejected Tiffany's suit on all counts, including its claims for contributory infringement.⁴ Tiffany has appealed that decision, and a ruling on the case is greatly anticipated.

E. Brick-and-Mortar Landlords

Canal Street in New York City. The Silk Market in Beijing. Luohu Commercial City in Shenzhen, just across the border from Hong Kong. Santee Alley in Los Angeles. Mahboonkrong Centre in central Bangkok. Tourists worldwide, and even popular travel guides, recognize these locations as must-visit destinations for the purchase of low-cost knock-offs of famous brands, and products likely not readily available in shops back home.⁵

2. SA Louis Vuitton Malletier v. eBay, Inc. & eBay International AG, Commercial Court of Paris, 1st Chamber, Division B, General Docket No. 200607799 (June 30, 2008); Christian Dior Couture, SA v. eBay Inc. & eBay International AG, Commercial Court of Paris, 1st Chamber, Division B, General Docket No. 2006077807 (June 30, 2008); and Parfums Christian Dior et al. v. eBay Inc. & eBay International AG, Commercial Court of Paris, 1st Chamber, Division B, General Docket No. unavailable (June 30, 2008). English and French versions of the judgments *available at* http://www.uslaw.com/library/Legal_Commentary/eBay_complying_French_court_order.php?item=194003 (last visited Feb. 16, 2009).

3. eBay has appealed against each of the decisions. To date, however, only the initial appeal relating to the injunction obtained by the perfume brands has been decided, with the Court of Appeals upholding the application of the injunction. eBay Inc. & eBay International AG v. Guerlain et al., Court of Appeal of Paris, 1st Chamber, Section P, General Docket No. unavailable (July 11, 2008). This decision, appearing only in the French language, is *available at* http://www.uslaw.com/library/Legal_Commentary/eBay_complying_French_court_order.php?item=194003 (last visited Feb. 17, 2009). According to the research of this blog's commentator, and in spite of the injunction's strictures, searches for "Guerlain," "Kenzo," "Givenchy," and "Parfums Christian Dior" on eBay indicated that hundreds of these products are still available from sellers on the site, both inside and outside France. Similar eBay searches run by the author on Feb. 17, 2009, from Hong Kong confirm that this is still the case.

4. Tiffany (NJ) Inc. & Tiffany & Co. v. eBay, Inc., 576 F. Supp. 2d 463 (S.D.N.Y. 2008).

5. For more on the well-known links between counterfeiting and Canal Street, see, e.g., <http://www.nytimes.com/2008/02/27/nyregion/27chinatown.html>; for the Silk Market, see, e.g., <http://olympics.about.com/b/2008/08/14/silk-pearls-and-counterfeit-goods.htm>; in relation to Luohu Commercial City, see, e.g., <http://cronicasoddesespero-adeblog.blogspot.com/2008/10/luohu-commercial-city.html>; on Santee Alley, see, e.g., <http://www.lamag.com/>

These malls are notorious for good reason. Sales of fakes in these markets are open and ubiquitous, and they have been for some time. Often, they are located in seedier parts of town, but more and more they are moving uptown and upscale, and, at least in the developing countries, larger organized crime networks could well be behind the ongoing operation of these malls. For their part, even “legitimate” landlords of these markets offend brand owners by their inaction, turning a blind eye to the obvious sales of fakes on their premises, and willingly accepting rental payments consisting partially or even completely of illegal proceeds. As a practical matter, these landlords are far too reliant on their sizable monthly rental proceeds (counterfeiters generally pay their suppliers’ bills on time to ensure uninterrupted services) and far too wary of an uprising among their tenants if they choose to take strong action against a few, while ignoring the identical activities of the others, or, even more drastically, if they choose to shut down the sales of fakes in the markets altogether.

Given the unique role that brick-and-mortar landlords necessarily play between the counterfeiter and his customers, landlords in many ways hold out a great hope for (1) recovery of significant damages for ongoing sales of fakes, and (2) effectively denying counterfeiters safe—and increasingly reputable—outlets through which counterfeiters peddle their products to willing consumers.

This article explores the bases of landlord liability causes of action against brick-and-mortar locations, focusing in particular on notable efforts in the United States, China, and Australia. Recent landlord liability cases in these three countries have attracted significant media attention, and have led to the expansion, or at least the clarification, of the potential liability of landlords for the misdeeds of their counterfeiter tenants.

After focusing on the specifics of these cases, this article suggests practical, proactive ways for brand owners to cost-effectively take advantage of and potentially expand landlord liability actions in these and other jurisdictions. Lessons learned from the case studies suggest not only the steps needed to set up actions against landlords, but also the proposed follow-up work that will be necessary after obtaining a successful judgment against or a negotiated settlement with a given landlord.

III. LEGAL BACKGROUND FOR LANDLORD LIABILITY ACTIONS

Actions against third parties for wrongs committed by another are by no means novel. Two of the more popular theories relied upon in support of brand owner lawsuits attempting to tie landlords to the counterfeiting offenses of their tenants under the broader rubric of secondary liability are “vicarious liability” and “contributory liability.” Additionally, enforcement authorities, often working in conjunction with brand owners, have creatively relied upon existing statutes originally intended to address other social ills to fight fakes. For example, “money laundering” laws permit authorities to seize proceeds from sales of counterfeits, and “public nuisance” laws permit them to shut down or even seize properties where counterfeits are being sold.

Each of these theories is discussed briefly below to provide general background for landlord-focused actions, as each jurisdiction has its own standards and tests for applying these theories in a brick-and-mortar context.

A. Vicarious Liability

Third parties may be held liable for the actions of others under the common law theory of “vicarious liability.” Vicarious liability generally arises under the doctrine of agency, and more particularly under the notion of *respondeat superior*. This theory is primarily tied to situations where a third party exercises sufficient dominion or control, by right, duty, or ability, over the violator and his acts or omissions.⁶

Under this theory, a party is held liable for the harm committed by another (generally in tort) even though the party is not directly responsible for causing the harm. Employers have been held vicariously liable for the acts of their employees, principals for the acts of their agents, parents for the acts of their children, and corporations for the actions of their directors and officers. Vicarious liability is generally applied strictly, meaning that the third party need not have actual knowledge of, or have even been present during, the commission of the act. Instead, it is enough that they generally exercised sufficient control over the

6. Vicarious liability is “the tort doctrine that imposes responsibility upon one person for the failure of another, with whom the person has a special relationship (such as parent and child, employer and employee, or owner of vehicle and driver), to exercise such care as a reasonably prudent person would use under similar circumstances.” West’s Encyclopedia of American Law, Vicarious Liability, available at <http://www.answers.com/topic/vicarious-liability> (last visited Feb. 17, 2009).

offender that they had some ability to halt or deter the infringing acts.⁷

B. Contributory Liability

The theory of contributory liability generally permits direct action against those who aid and abet the offender in his infringing activities. These parties need not necessarily exercise control or dominion over a tortfeasor or criminal. Instead, the liability of these parties is established and justified by (1) their knowledge of the offending activities of the infringer and (2) their provision of material support to the infringer that facilitates, induces, or causes the infringement to occur or continue. Contributory liability for offenses relating to copyright piracy⁸ and trademark counterfeiting⁹ is firmly established.

C. Money Laundering

Money laundering can be broadly defined as the “legitimization (washing) of illegally obtained money to hide its true nature or source (typically the drug trade or terrorist activities) . . . effected by passing it surreptitiously through legitimate business channels by means of bank deposits,

7. See *Perfect 10, Inc. v. Visa Int’l Serv. Ass’n*, 494 F.3d 788 (9th Cir. 2008) (vicarious trademark infringement requires “a finding that the defendant and the infringer have an apparent or actual partnership, have authority to bind one another in transactions with third parties or exercise joint ownership or control over the infringing product” (quoting *Hard Rock Cafe Licensing Corp. v. Concession Servs., Inc.*, 955 F.2d 1143, 1150 (7th Cir. 1992))); *Louis Vuitton Malletier, S.A. v. Akanoc Solutions, Inc. et al.*, 591 F. Supp. 2d 1098 (N.D. Cal. 2008). An early case on the theory of vicarious liability in an IP context is *Shapiro Bernstein & Co. v. H.L. Green Co.*, 316 F.2d 304 (2d Cir. 1963). There, the defendant was the owner of a chain of department stores. The actual pirate, a concessionaire at one of the department stores selling copied phonograph records, was not technically an employee of the department store owner, who was unaware of the pirate’s copyright infringing activities. Nevertheless, the fact that the store owner had the power to halt the concessionaire’s conduct and derived a benefit from the pirate’s activities in the form of rental receipts formed the basis of the *Shapiro* court’s extension of the theory outside the traditional *respondeat superior* context.

8. See, e.g., *Mini Maid Servs. Co. v. Maid Brigade Sys., Inc.*, 967 F.2d 1516, 1522 (11th Cir. 1992) (adopting the contributory trademark liability standard of *Inwood Laboratories, Inc. v. Ives Laboratories, Inc.*, 456 U.S. 844, 853-54, 102 S. Ct. 2182, 2188, 72 L. Ed. 2d 606 (1982)); *Perfect 10*, 494 F.3d at 807 (“To be liable for contributory trademark infringement, a defendant must have (1) ‘intentionally induced’ the primary infringer to infringe, or (2) continued to supply an infringing product to an infringer with knowledge that the infringer is mislabelling the particular product supplied”) (citing *Inwood Labs.*, 456 U.S. at 855); *Fonovisa, Inc. v. Cherry Auction, Inc.*, 76 F.3d 259, 261 (9th Cir. 1996) (citing *Sony Corp. of Am. v. Universal Studios, Inc.*, 464 U.S. 417, 435, 104 S. Ct. 774, 78 L. Ed. 2d 574 (1984)).

9. See, e.g., *Hard Rock Licensing Corp. v. Concession Servs., Inc.*, 955 F.2d 1143, 1149 (7th Cir. 1992).

investments or transfers from one place (or person) to another.”¹⁰ Anti-money laundering regulations are primarily designed to combat the efforts of criminals, including members of organized crime networks, terrorists, drug dealers, and weapons dealers, to cleanse their ill-gotten gains.¹¹

In what can be viewed as a natural extension of such rules (particularly those broadly drafted to sweep a range of activities into their net), Trading Standards¹² officials in the UK turned to money-laundering legislation to prosecute Wendy Fair Markets Limited (“Wendy Fair”) and its directors, Nick Hobday and Sally Ward.¹³ Wendy Fair managed a flea-market-type operation in Bovingdon, Hertfordshire. At that market, a number of stall owners had been found selling counterfeit DVDs, CDs, video games, and computer software.¹⁴

At trial, the prosecutor was able to convince the jury to convict the defendants on two separate counts of violations of Section 328(1) of the UK Proceeds of Crime Act 2002 (c. 29) (“POCA 2002”), which reads as follows:

328 Arrangements

(1) A person commits a [money laundering] offence if he enters into or becomes concerned in an arrangement which he knows or suspects facilitates (by whatever means) the acquisition, retention, use or control of criminal property by or on behalf of another person.¹⁵

10. Available at <http://www.businessdictionary.com/definition/money-laundering.html> (last visited Feb. 17, 2009).

11. For example, the Preamble to the UK Proceeds of Crime Act 2002 (c. 29) (POCA 2002) provides:

An Act . . . to provide for confiscation orders in relation to persons who benefit from criminal conduct and for restraint orders to prohibit dealing with property, to allow the recovery of property which is or represents property obtained through unlawful conduct or which is intended to be used in unlawful conduct, to make provision about money laundering, to make provision about investigations relating to benefit from criminal conduct or to property which is or represents property obtained through unlawful conduct or to money laundering, to make provision to give effect to overseas requests and orders made where property is found or believed to be obtained through criminal conduct, and for connected purposes.

12. Local Trading Standards officials, part of the UK government’s Trading Standards Institute, are tasked with investigation and prosecution of counterfeiting crimes, among other things. See generally http://en.wikipedia.org/wiki/Trading_standards (last visited Feb. 17, 2009).

13. R. v. Wendy Fair Markets Ltd., Nicholas Giles Hobday & Sally Ann Ward, [2008] EWCA Crim 2459 (Lord Justice Pill *et al.*, Oct. 16, 2008).

14. It was estimated during trial that as many as 19% of the stalls at Bovingdon were engaged in the sale of counterfeit products. *Id.* at [19].

15. POCA 2002, c. 29, s. 328(1).

The defendants' convictions were primarily based on their direct receipt of rents from stall owners who were convicted of selling counterfeit products, notification to them by Trading Standards officers of the ongoing sales of fakes in the market, and counterfeit DVDs that had been seized from one of the defendant's homes, which were argued to establish her familiarity with such fakes and her ability to distinguish them from the real thing.¹⁶

Although the convictions in this particular case were reversed,¹⁷ the decision in the *Wendy Fair Markets Case* clearly upholds the right of UK Trading Standards officials to convict landlords for money laundering offenses where the landlord is aware of ongoing counterfeiting on the landlord's property and the landlord accepts rents from the counterfeiters with knowledge of the source of those funds. Similar language in the money laundering laws of other jurisdictions could be a valuable tool for law enforcement.

D. Public Nuisance

In their fight against counterfeiting, enterprising city governments have relied upon ordinances permitting them to deem properties where drug dealing, prostitution, gang activity or gambling is occurring as "public nuisances" to penalize landlords whose tenants are selling fakes. In Los Angeles, for example, authorities have added Chapter 13.90 to Title 13 of the Los Angeles County Code. That title, "Counterfeit Nuisance Abatement Law," provides the following in relation to locations where counterfeits are traded:

Every property used for the purpose of willfully manufacturing, intentionally selling, or knowingly possessing for sale: (1) any counterfeit of a mark registered with the Secretary of State or registered on the Principal Register of the United States Patent and Trademark Office; or (2) any

16. *Wendy Fair Markets Case*, at [3]-[4], [12]-[13], [16].

17. On appeal, the convictions were quashed. This was not, however, due to the Court of Appeals' finding that Trading Standards had overreached, or that the POCA 2002 was inapposite in such a case. Instead, the appeal was allowed on the grounds that in crafting the "summing up" (the process by which juries in the United Kingdom are charged before their deliberations commence), the trial judge failed to put the case (and its voluminous evidence) to the jury "by reference to the evidence and to the specific counts in relation to that evidence. They were left in a confused state which did not enable them fairly to perform their duty." *Wendy Fair Markets Case*, per Malcolm Pill LJ at [41]-[42]. This created the real risk that the jury might have convicted the defendants not because they were guilty of the accused crimes in relation to certain specified stalls, but instead because of poor management procedures at the market that permitted counterfeiting to occur. *Id.* at [42]. The court declined to order a retrial of the defendants on the grounds that such a procedure would not be in the public interest. *Id.* at [97].

recording or audiovisual work whose cover, box, jacket, or label fails to accurately disclose the information regarding the manufacturer and the author, artist, performer, producer, programmer, or group, as proscribed by California Penal Codes section 653w, is a public nuisance which may be restrained, enjoined, abated, and prevented pursuant to the provisions of this chapter.¹⁸

By formally adding sales of counterfeit products and pirated CDs and DVDs to the laundry list of public nuisances, which are invariably supported by an official pronouncement that such sales contribute to the decline of city's quality of life, depress property values, and pose a threat to the public's health and safety, officials in Los Angeles can now shut down buildings where fakes are being sold and fine landlords for permitting the criminal activity to take place on their property. In the right case, fines assessed against landlords can be massive and they permit the city to obtain a lien over the property for those fines, potentially forcing sale of the property to pay the outstanding penalties.¹⁹

E. New Theories . . . Valid Questions

Each of these theories provides intriguing options for brand owners who are interested in shifting the paradigm away from direct actions against counterfeiters to actions against their landlords and other middlemen. They are only a first step, however, and any discussion on this topic should really end on the following operative questions: How successful are these theories in practice? Have they halted or substantially reduced the sale of counterfeits in cities or markets where they have been implemented? Have they driven any landlords out of business and resulted in recovery by brand owners of significant damages? Last, and most importantly, how can successes be replicated—and less-than-favorable results be avoided—by enterprising brand owners who are seeking to use these theories in their own fights against counterfeits?

To answer these questions and formulate a landlord liability strategy, an initial examination of three notable landlord liability actions is instructive.

18. Los Angeles, California County Code § 13.90.040. *See also* New York City's Nuisance Abatement Law, Administrative Code of City of NY § 7-703(l).

19. Under § 13.90.060, fines of up to US \$1,000 per "each counterfeit of a [registered] mark" or "each recording or audiovisual work whose cover, box, jacket, or label fails to accurately disclose the information regarding the manufacturer and the author, artist, performer, producer, programmer, or group" can be levied against a seller of fake goods. Fines from several hundred pirated DVDs or counterfeit pairs of jeans could quickly add up to a sizable sum.

IV. ANALYSIS OF ACTIONS AGAINST LANDLORDS IN THE UNITED STATES, CHINA, AND AUSTRALIA

Civil actions against landlords of high-profile markets have captured headlines over the last few years. This section examines the facts in three of those cases, two in highly developed nations whose consumers have an insatiable appetite for fakes, and the third in a country fairly deemed to be the world's underground factory and showroom for counterfeits. The facts of these cases, as well as the situations in those markets today, offer valuable lessons—and a bit of a cautionary tale—for brand owners who are considering landlord liability actions of their own.

A. Canal Street, New York, NY, USA

*Louis Vuitton Malletier v. Richard E. Carroll et al.*²⁰

Canal Street in Manhattan, at the edge of Chinatown, has long been a notorious hotbed of counterfeit products:

Today, Canal Street is a bustling commercial district, crowded with low-rent (compared to other Manhattan real estate) open storefronts, and street vendors to the west; banks and jewelry shops to the east. Tourists as well as locals pack the Canal Street sidewalks every day to frequent the open-air food stalls and bare-bones stores selling items such as perfume, purses, hardware, and industrial plastics at very low prices. Many of these goods are grey market imports and many notoriously counterfeit, with fake trademark brand names on electronics, clothing and personal accessories (including the fake Rolex watches that have become a Manhattan cliché). Illegally produced CDs and DVDs are very common, and offered for sale on the Canal Street sidewalks in makeshift stands and suitcases or simply laid out on bedsheets, often before they are even officially released in stores or the theater. Widespread sale of these counterfeit goods persists along Canal Street and in its hidden back rooms despite frequent police raids.²¹

In April of 2005, Louis Vuitton Malletier (“Louis Vuitton”) filed an initial suit against Richard Carroll, landlord of seven buildings on Canal Street where earlier investigations and nuisance abatement actions by New York City police established that fake products were being sold. In its complaint, Louis Vuitton

20. United States District Court for the Southern District of New York, Case No. 05CV3331 (TPG) (S.D.N.Y. Apr. 19, 2005) (unreported).

21. *Canal Street (Manhattan)*, [http://en.wikipedia.org/wiki/Canal_Street_\(Manhattan\)](http://en.wikipedia.org/wiki/Canal_Street_(Manhattan)) (last visited Feb. 17, 2009).

argued that Carroll had been put on notice via six separate letters it had written informing him of the infringing activities as well as the police's nuisance abatement actions. In its lawsuit, Louis Vuitton argued, among other things, that Carroll should be held contributorily and vicariously liable for the actions of his tenants. Specifically, it claimed that Carroll not only had failed to terminate tenants after being made aware of their offenses, but also took active steps to assist in the perpetuation of the offenses, including facilitating the relocation of infringing tenants from his property to the property of an associated landlord or renting to new tenants who he was well aware would be selling fakes.

Louis Vuitton pressed for and was able to obtain (with the eventual agreement of Carroll) broad injunctions against him and the specified tenants. Specifically, the injunctions, effective April 19, 2005, provided for the following:

- (1) Carroll was to finalize eviction actions against several tenants (presumably found to be selling fake products by Louis Vuitton earlier) and initiate eviction actions against several others;
- (2) Carroll was to pay (jointly with Louis Vuitton) the cost of a court-appointed investigator. The investigator was to be granted full access to his premises to undertake weekly searches of both private and public areas of the buildings to detect any ongoing infringement of Louis Vuitton's trademarks;
- (3) Shopkeepers were required to display signs inside and outside shops in the buildings stating the following:

WARNING:

THIS RETAILER IS NOT AUTHORIZED OR LICENSED
TO SELL LOUIS VUITTON MERCHANDISE.

THE NEW YORK CITY POLICE DEPARTMENT
AND LOUIS VUITTON

INVESTIGATE ANY SALE OR PURCHASE OF
COUNTERFEIT MERCHANDISE AT THIS LOCATION.

COUNTERFEITING IS CRIMINALLY
AND CIVILLY PUNISHABLE

UNDER FEDERAL AND STATE LAW BY UP TO
10 YEARS IMPRISONMENT AND \$2,000,000 IN FINES.

TO REPORT THE OFFER FOR SALE OF COUNTERFEIT
MERCHANDISE PLEASE CALL 1-800-_____.

- (4) Carroll was required to include a specific term in each of his new leases expressly prohibiting, and presumably authorizing termination of the lease for the sale of counterfeit products; and

- (5) Carroll was to promptly evict tenants who violated the terms of the injunction.

Violations of the injunction would be deemed contempt of court and would subject the violators to fines or even imprisonment.

Further rounds of lawsuits against three other landlords resulted in the issuance of additional injunctions against other buildings on Canal Street. Though the lawsuits were eventually settled and the precise terms of the settlements are sealed, the questions of whether and how much in compensation Louis Vuitton received are left open—though it is likely safe to assume any payments were substantial.²²

One of Louis Vuitton's counterfeiting managers in New York City indicated that as of November 2008, Canal Street's brick-and-mortar locations had been clean of counterfeit Louis Vuitton products for about the preceding nine months. Police had continued nuisance abatement programs in the area since the issuance of the injunctions, further squeezing counterfeiters out of Canal Street and into buildings in other parts of the city, and even into vehicles. Although there was continuing availability of counterfeits of a number of products, the infringers were clearly avoiding Louis Vuitton products, and were even turning in sellers of fake Louis Vuitton items to the police, which, in essence, is pushing out their competition. He credited this shift to both Louis Vuitton's landlord liability program and the continued support of the New York City police. The police actions, in particular, appeared to be aiding in the gentrification of the Canal Street area, which, if continued, should eventually push counterfeiting activity even further out of the area.

22. In an interesting side note, one of the landlords, Michael Marvisi, sought insurance coverage for damages owed to various brand owners, including Louis Vuitton, stemming from the lawsuit against him and his tenants. In the case, he attempted to rely on the "advertising injury" policy provision that relates to losses stemming from the use of another's copyright or trademark in "advertisements." The court held that Marvisi's permitting others to sell fake products on his premises was insufficient to trigger coverage under the policy, as any "advertisements" were made by his tenants, and not directly by him. *Marvisi v. Greenwich Ins. Co.*, No. 04 CV 6733 (TPG), 2006 WL 1422693 (S.D.N.Y. May 23, 2006).

***B. The Silk Market, Beijing,
People's Republic of China (PRC)***

*Chanel, Burberry, Prada, Gucci, and Louis Vuitton v. Xiushui
Haosen Clothing Market Co., Ltd.*²³

Originally a ramshackle outdoor market selling fake clothing and leather goods (among other trinkets) located near the Embassy District in Beijing, the Silk Market was recast in 2004 as an upscale shopping mall and formally called “Silk Street.” Now housing over 1,700 retail vendors in a shiny 35,000-square-meter complex, the Silk Market features a number of reputable jewelry stores as well as a branch of the famous “Quanjudu” Peking duck restaurant chain. It also remains a prime location for tourists and locals to purchase counterfeits of a wide range of famous labels, including fake clothing and leather goods that copy all of the major luxury brands. To give a sense of the Silk Market’s draw, the *China Daily* newspaper indicates that the Silk Market has become “the third best-known tourist destination in Beijing after the Palace Museum and the Great Wall,” attracting as many as 20,000 visitors a day during the week and as many as 50,000 to 60,000 on weekends.²⁴

Against this backdrop, the five aggrieved brand owners filed suit against the landlord of the mall, Xiushui Haosen Clothing Market Co., Ltd. (“Haosen”), and five separate vendors (the “initial vendors”). The lawsuits cannot have been a surprise to Haosen; after a first round of notarized²⁵ purchases to establish the infringements of the initial vendors, the brand owners served demand letters upon the landlord, notifying it of the circumstances of the sales and demanding its assistance in putting a stop to the

23. The original decisions and following appeals in these cases were issued under five separate case-file numbers, one for each plaintiff. The decision of the initial trial court, the Beijing No. 2 Intermediate People’s Court, was issued on Dec. 19, 2005, and is reported, in Chinese only, at *Louis Vuitton Malletier v. Pan Xianchun & Beijing Haosen Fashion Market Co Ltd*, (2007) CIPR ¶180-010. Each of the judgments in the separate cases brought by the other brand owners is essentially identical, save for the substitution of (1) the names of the plaintiffs, and (2) the inclusion of unique facts relating to the individual sellers of the goods and the particulars of their sales of fakes of a given plaintiff’s products. For the sake of consistency, all references to judgments herein, including the judgment of the Beijing No. 2 Intermediate People’s Court relating to Prada’s lawsuit, and the Beijing Higher People’s Court’s (which heard the Silk Market’s appeal) judgment relating to the appeal of Louis Vuitton’s lawsuit, are to unofficial English translations of the respective judgments provided by plaintiff’s counsel, Joseph Simone of Baker & McKenzie (Hong Kong).

24. *Silk Street*, http://en.wikipedia.org/wiki/Silk_market (last visited Feb. 17, 2009).

25. To be admissible in court in the PRC, evidence such as this must be obtained in the presence of a PRC notary and supported by a report from the notary establishing the circumstances surrounding the sale. Code of Civil Procedure of the People’s Republic of China, art. 240.

initial vendors' unlawful activities within the mall.²⁶ Haosen, however, did not respond to the letters and took no action against the initial vendors. Accordingly, a second round of notarized purchases was conducted.²⁷ With evidence in hand demonstrating that the same vendors were still engaged in the sale of the same counterfeit products, the brand owners filed suit against Haosen and the initial vendors, asking the court to hold them jointly and severally liable for trademark infringement.

The basis of the claim against Haosen was Article 50(2) of the PRC's Trademark Law Implementing Regulations. That section of the regulations establishes contributory liability for infringement of another's trademark, holding third parties liable for the "intentional provision of conditions facilitating the infringement of another person's exclusive right to use a trademark such as storage, transportation, mailing or concealment."²⁸

The suit finally spurred Haosen into action. It terminated the leases with the initial vendors, asked the local Administration for Industry and Commerce ("AIC") to terminate their business licenses, and executed new leases with each of its tenants in which the tenants expressly undertook to Haosen that they would not sell counterfeits in their stalls.²⁹ All of this was to no avail. A third round of notarized purchases within the mall against other vendors confirmed that fakes of each of the brands' products were still on active sale there despite Haosen's efforts.³⁰

In its rulings on the brand owners' complaints, holding Haosen jointly and severally liable for the initial vendors' infringing activities (which were upheld after appeals by Haosen and the vendors), the Beijing No. 2 Intermediate People's Court held as follows:

- (1) That as the operator of Silk Market, Haosen had an obligation under Article 50(2) to "*timely and effectively halt*" infringements committed by the defendant vendors in question, thus providing conditions that facilitated those vendors' infringing again;
- (2) That Haosen had been expressly informed of the initial vendors' infringements via warning letters, but failed to act upon that warning;

26. Prada SA v. Li Caiping & Beijing Haosen Fashion Market Co Ltd, (2005) Er Zhong Min Chu Zi No. 13596, Unofficial Translation at 2 (hereinafter "*Prada Judgment*").

27. *Id.* at 2-3.

28. Implementing Regulations of the Trademark Law of the People's Republic of China, art. 50(2) (2001).

29. *Prada Judgment* at 3.

30. *Id.*

- (3) In spite of the termination of the initial vendors' leases, other vendors in the market continued to sell fakes of the brand owners' products;
- (4) Given that the initial vendors continued to sell after the warning to Haosen, and other vendors continued to sell even after the initial vendors' leases were terminated, new leases signed, etc., it was clear that Haosen's preventive measures were "not timely" and thus "enabled" the infringement by the initial vendors.³¹

Interestingly, the court's decisions did not touch on either (1) the ineffectiveness of Haosen's post-warning-letter actions to halt ongoing infringements committed by *other* vendors in its mall, or (2) whether Haosen was required to take any steps on a going-forward basis to halt or decrease the likelihood of future counterfeit sales by its remaining tenants—in spite of notarized evidence showing the continued sales of fakes within the Silk Market during and presumably at the close of the trial. Instead, it simply ordered Haosen and the initial vendors to pay damages of RMB 10,000 (about US \$1,500) and enforcement costs of around US \$1000 to each brand owner, and to "cease their infringement" of the brand owners' trademarks.³² The judgments against the defendants were all subsequently upheld by the Beijing Higher People's Court.³³

The court's order indicated that Haosen had failed to "timely and effectively halt" only the infringement by the initial vendors. In light of this language, it can be assumed that had Haosen taken prompt steps to eject the initial vendors upon receipt of the letters, thus "timely and effectively halting" the initial vendors' infringements, the case might well not have succeeded in spite of the fact that other vendors not the subject of the notarized purchases were still actively engaged in the sales of fakes.

Rampant sales of fakes in the Silk Market have continued in spite of this decision and the following related developments:

- (1) a blanket prohibition on the sale of counterfeits of 48 major brands in the city (including the five plaintiffs' brands);
- (2) local Chaoyang District (where the Silk Market is located) regulations that require landlords to monitor goods sold by their tenants, and require tenants to obtain

31. *Id.* at 4.

32. *Id.* at 5.

33. Louis Vuitton Malletier v. Pan Xianchun & Beijing Haosen Fashion Market Co Ltd, (2005) gaominzhongzi No. 335, judgment delivered on Apr. 18, 2006.

authorizations to sell those goods from relevant brand owners/distributors (or at least keep records on the source of the goods they are selling), and an AIC punishment decision, upheld after appeal, based on violations of the regulations;³⁴

- (3) yet another civil judgment against Haosen, further clarifying the scope of a landlord's responsibility to take proactive steps to prevent sales of fakes in its market;³⁵ and
- (4) an agreement between a coalition of 23 brand owners³⁶ and Haosen that the Silk Market will impose a "two-strike" rule under which, upon notice to Haosen, infringing vendors are suspended after proof of an initial sale, and terminated after proof of a second.

As to this last point, Haosen continued to drag its feet in responding to such notices from the coalition, particularly by demanding that proof of infringements meet certain formality requirements before it will be acted upon. As a result, the coalition members renewed their legal efforts against the Silk Market management, filing additional lawsuits against 22 separate stall owners and Haosen for trademark counterfeiting in late 2008.³⁷ A settlement in the suits negotiated by the presiding judge resulted in Silk Market management's suspending the operation of a few dozen shops based upon notarized evidence of their infringing

34. These rules are patterned on a template Trademark Authorization System that has since been implemented in hundreds of markets across the PRC.

35. In a case brought by North Face Apparel Corp., a U.S. Outerwear company, against the Silk Market in 2007, the Beijing No. 2 Intermediate People's Court held that by failing to proactively take steps to verify the origin of the North Face merchandise and whether it was authorized once it was put on notice that fake North Face products were on sale in the market, Haosen had failed in its basic duty to prevent such infringements. Although Haosen did not ignore the notices, it only issued the vendors a warning. North Face was awarded RMB 40,000 (about US \$5,400) in damages and fees. Interestingly, Haosen argued at trial that because a number of the products were sold by the vendors "under the counter," it was unable to monitor or prevent those sales. The court rejected this claim, noting that in spite of a term in its leases prohibiting tenants from issuing warranty cards for fake products sold *covertly*, North Face had been able to readily purchase products with warranty cards both before and after issuance of the warning letter. A report on the case is *available at* <http://chinapiracyreports.com/2008/08/14/north-face-apparel-corp-usa-v-beijing-silk-market-co-ltd.aspx> (last visited on Feb. 17, 2009).

36. The coalition is composed of 23 brands formed to take advantage of the initial Silk Market decisions and press the theory in other markets in Beijing, Shanghai, Guangzhou, and Shenzhen via cooperation with landlords, AIC, and other concerned government agencies. Commentary on the coalition and on two brands that have instead settled with Silk Market is *available at* http://www.danwei.org/intellectual_property/good_brand_bad_brand.php.

37. See http://www.chinadaily.com.cn/bizchina/2009-02/17/content_7483091.htm (both sites last visited on Feb. 17, 2009).

activities provided by the brand owners.³⁸ These suspensions resulted in near riots at the mall, as well as at the offices of the brand owners' Chinese lawyers.³⁹ Moreover, and what is certain to muddy the waters in the cases further, is that 22 of the stall owners (apparently the defendants in the recently filed cases) have filed their own suits against the brand owners' Chinese lawyers and Silk Market management on a variety of grounds, including complaints about the sufficiency of the notarized evidence supporting the suspensions.⁴⁰ The suits also seek US \$23,500 in compensation for harm.⁴¹

C. Carrara Markets, Brisbane, Australia

*Louis Vuitton Malletier SA v. Toea Pty Ltd & John Michael Rosenlund*⁴²

In this matter, Louis Vuitton sued Toea Pty Ltd. ("Toea"), which owns, and Rosenlund, who manages, the Carrara Markets (the "Markets"), an open-air market located just outside the Gold Coast in Queensland, Australia. In its suit, Louis Vuitton claimed that Toea's and Rosenlund's failure to halt continuing infringements of its trademarks by sellers of products within the Markets amounted to having themselves infringed Louis Vuitton's rights.

The Markets are composed of approximately 400 stalls occupied by permanent stall holders, about 20 stalls of which are occupied by long-term casual stall holders, and about 40 stalls of which are available for short-term rental and use. The Markets generally only operate on weekends. Since 1997, when Rosenlund took over as manager of Toea, he has required all new permanent stall holders to enter a "licence to occupy" that specifies the basic terms of the long-term relationship. Notably, the licensees acknowledge that they are "subject to control, management and direction of the Licensor's manager," and the licensees agree to not engage in any illegal trade or "activity that would be detrimental to the reputation of the market."⁴³

38. *Id.*

39. *See* http://www.chinadaily.com.cn/bizchina/2009-02/10/content_7459208.htm; http://news.yahoo.com/s/nm/20090206/lf_nm_life/us_china_market_2.

40. *Id.*; http://www.chinadaily.com.cn/bizchina/2009-02/10/content_7459208.htm (last visited on Feb. 17, 2009).

41. *Id.*

42. [2006] FCA 1443 (unreported, Dowsett, J., Nov. 7, 2006).

43. *Id.* at [6-12].

There is no *per se* licensing of the casual stall holders. Long-term casual holders are permitted access to the same stall each week, whereas short-term casual stall holders are required to queue up and be assigned an available open stall. The short-term stall holders are questioned about the type of goods they will sell and are provided other basic conditions, one of which relates to prohibition of trademark and copyright infringement. Toea staff members take some effort to manage the location of sellers to avoid grouping similar products too close to each other.⁴⁴

In the past, Rosenlund had evicted a few stall owners from the Markets, but such evictions were for parking violations and were unrelated to counterfeiting activity.⁴⁵

Concerned about ongoing sales of counterfeit Louis Vuitton products by stall owners in the markets, Louis Vuitton dispatched investigators to the Markets to undertake trap purchases. Several of the infringers were fairly dyed-in-the-wool counterfeiters, and were caught on multiple occasions selling fake Louis Vuitton products in spite of repeated warnings not to do so. The court decision shows a clear pattern of activity by the infringers and the defendants:

- (1) The infringers would be caught willingly selling counterfeit Louis Vuitton products to the undercover investigators with full knowledge the products were fake;
- (2) Both the sellers and Toea/Rosenlund would be issued notices of infringement by Louis Vuitton;
- (3) Rosenlund would confront the infringers, and warn them that such sales in future would be punished, perhaps even by expulsion from the Markets;
- (4) The infringers would plead ignorance or explain away the sale, promising that they would not again engage in sales of the fake products;
- (5) In spite of the warnings, the infringers would again be caught selling counterfeit products by Louis Vuitton's investigators;
- (6) Steps 2 through 4 would be repeated.

The primary infringers were caught making three separate sales over the course of the 18 to 20 months that preceded the filing of the lawsuit. The evidence, including statements made by Rosenlund at trial, indicates, however, that management was never really serious about the threat of expulsion. Indeed, none of

44. *Id.* at [8].

45. *Id.* at [112, 122].

the infringers were ever expelled or even suspended from selling within the Markets in spite of their repeated infringements.

Rosenlund did issue a few generalized warnings to all stall holders, and on one occasion asked a female friend, presumably unknown to the infringers, to visit the markets and check for Louis Vuitton products (she found none).⁴⁶ He also instructed security staff to be on the lookout for counterfeit items, but as a practical matter, none of them had any training in identifying Louis Vuitton products. Furthermore, the infringers became cagier as the warnings continued, concealing their products within their stalls by using various means, thereby making it more unlikely that casual checks would detect the presence of fakes.⁴⁷

Just prior to filing suit, Louis Vuitton sought to obtain from Rosenlund and Toea an undertaking that they would enact stronger measures to prevent infringements, which included the actual expulsion of tenants selling counterfeit Louis Vuitton products. Similar undertakings had already been given to Louis Vuitton by other markets throughout Australia. Toea and Rosenlund would not provide such an undertaking, however.⁴⁸ Louis Vuitton therefore proceeded directly against Toea and Rosenlund for the harm caused by the sales of counterfeit products by stall holders at the Markets, not joining the infringers themselves in the suit.

In its lawsuit, Louis Vuitton argued that the steps taken by Toea and Rosenlund were clearly inadequate to halt the ongoing infringements. Consequently, Louis Vuitton claimed, they should be deemed to have tacitly accepted the activity to a degree that it was reasonable to find them as having “agree[d] on a common action [with the infringers], the common action being the promotion of their joint businesses at the market.”⁴⁹ In defining this “agreement on a common action” more clearly, Louis Vuitton stated that “the conduct of the infringers was conduct undertaken with the *concurrence* of [Toea and/or Rosenlund] and pursuant to their *common design*.”⁵⁰ This was an argument to extend vicarious civil liability to “joint” or “secondary” tortfeasors in a trademarks context, something the court pointed out was not anticipated in the relevant provisions of the Australian Trade Marks Act 1995 (Cth) but instead would have to be drawn from the general civil law.⁵¹

46. *Id.* at [117].

47. *Id.* at [123-24].

48. *Id.* at [125].

49. *Id.* at [142].

50. *Id.* at [144].

51. *Id.*

The court was willing to find that there could indeed be circumstances where “the relationship between the person who commits a tort and another person” might indeed amount to an “authorization” of the act by the other, and that the appropriate facts could demonstrate that legally the parties could or should be deemed “joint tortfeasors.”⁵² This alone, however, would be insufficient to warrant a finding of infringement by Rosenlund/Toea. It would also need to be shown that Rosenlund/Toea and the infringers demonstrated a “common purpose” to commit the infringement, and “not merely a coincidence of separate acts which by their conjoined effect cause damage.”⁵³

The court was not willing to find the necessary common purpose present in this instance. In its holding, it relied heavily upon the fact that Rosenlund’s efforts indicated a clear intention to halt the infringements—not to directly or even indirectly encourage them—and that this intention was made clear to the infringers. In essence, the court indicated that Rosenlund’s purpose was to manage the Markets efficiently and profitably, while the infringers’ purposes were to manage their own stalls efficiently and profitably, stating succinctly that this demonstrated “no common purpose.”⁵⁴ The court rejected Louis Vuitton’s claim.⁵⁵ The case was not appealed.

Not surprisingly, sales of counterfeit products at the Markets have continued after the lawsuit, and brand owners have been forced to persist in the tried and true methods of criminal sweeps by the police and cease and desist letters from their lawyers.

V. PRACTICAL TIPS FOR BRAND OWNERS CONSIDERING LANDLORD LIABILITY ACTIONS

The cases analyzed above offer three starkly different conclusions from one jurisdiction to the next:

- (1) In the United States, a set of brand-owner-friendly court decisions appears to have resulted in positive long-term effects on the presence of fakes in the target market;
- (2) In China, several brand-owner-friendly court decisions appear not to have had a significant long-term effect on the presence of fakes in the target market; and

52. *Id.* at [168].

53. *Id.*

54. *Id.* at [172].

55. *Id.* at [173].

- (3) In Australia, a landlord-friendly decision appears, unsurprisingly, not to have had a significant long-term effect on the presence of fakes in the target market.

There are a variety of reasons for the disparity in outcomes. Local protectionism and a very aggressive and wily landlord in the case of the Silk Market is one. A lack of clear civil liability for aiding and abetting trademark infringements in Australian law in the case of Carrara Markets is another. An aggressive and proactive police department willing to take its own nuisance abatement actions in the case of Canal Street to support or set up civil actions by Louis Vuitton is a third. Given these disparate decisions, brand owners should keep the following practice points in mind as they consider whether and where to start their own landlord liability actions.

A. Choose Your Targets Carefully

As a practical matter, landlord liability actions are most appropriate when the scale of counterfeiting in a market is severe, fakes are sold openly, the harm being done to affected brand owner is significant, and the landlord is relatively indifferent to the problem. Actions against landlords of markets where counterfeiting is sporadic, and involves more limited quantities of product, or is primarily done covertly, in countries where the law is unclear or weighs against extension of contributory liability to landlords for their tenants' actions, are likely to face significant hurdles.

B. Cooperation of Local Government and Enforcement Officials Is a Key Element of Success

In New York, Louis Vuitton was able to succeed by taking advantage of aggressive enforcement efforts against counterfeiters and landlords by the city that were based upon nuisance abatement laws, and by piggybacking its actions on past raids by the police, and even going so far as to base its suits, at least in part, on results of police raids undertaken earlier.⁵⁶

56. It should be noted that to a large degree, the city's policy extending nuisance abatement to counterfeits came about as a result of earlier lobbying efforts by copyright holders and their representative organizations to halt the sale of pirated DVDs and CDs on Canal Street. The same is true of nuisance abatement enforcement in Los Angeles. Trademark owners would greatly benefit from better industry-wide organization of the kind present in the software, music, and film industries, where dedicated and organized lobbying efforts ensure a large share of government enforcement resources is directed towards stamping out copyright piracy.

In the UK matter discussed above at Part III.C. Money Laundering, local government and police were willing to take aggressive action against landlords by extending the use of anti-drug and arms-dealing statutes to deal with IP crimes in an open-air market in a small town where the sale of fakes was rampant.

Conversely, in China, in spite of (1) local regulations requiring sellers to provide trademark authorizations from brand owners, and (2) a clear indication by the Beijing court that a landlord's failure to monitor and control the sale of fakes in his market can lead to punishment for trademark infringement, the Chooyang District AIC has failed to strictly enforce those regulations, and counterfeiting there remains widespread. Moreover, Chinese police have failed to aggressively investigate the landlord of the Silk Market for counterfeiting crimes, even though the landlord's rental proceeds derived directly from the sale of counterfeits on any given day likely far exceed the criminal liability thresholds for punishment for trademark counterfeiting under the PRC Criminal Law. Absent a real threat of significant penalties, up to and including jail time, there is little motivation for a landlord to take a strong hand with its tenants, as opposed to using delay tactics to ensure that business continues relatively unimpeded.

Similarly, enforcement officials and local government in Australia, in the author's experience, do not as a rule prioritize counterfeit offences, even against infringers themselves, with criminal raids being organized only with some difficulty. It therefore seems unlikely that local governments in Australia would view the issue of counterfeit sales in markets like the Carrara Markets as being sufficiently grave to aggressively expand public nuisance or money-laundering laws to these sales.

In light of these disparities between jurisdictions, a deep understanding of local laws and regulations, the ease with which raid actions (including criminal raid actions) can be organized, and the willingness of local authorities, including police and local government, to add to the pressure on landlords is vital. Lobbying of police or local officials to obtain commitments for cooperation and/or to coordinate actions in advance of any serious efforts to move against a landlord are vital.

C. Is There an Opportunity for Compromise with the Landlord?

Absent clear legal grounds upon which to proceed or an aggressive local police force to back up landlord liability actions, brand owners may need to consider whether there is a tasty carrot that might be used to obtain the desired result in the absence of a strong stick. Creative lawyering and a willingness to understand the practical difficulties a landlord is going to encounter if the

landlord begins tossing infringers out of the mall, either selectively or *en masse*, are required.

As an alternative to continuous, business-disrupting raids in a market, or risky litigation, the two-strike rule to which the brand owners were able to get the landlord of the Silk Market to agree offers a valuable potential for compromise. Although it has not been effective in the Silk Market, with the landlord stalling enforcement of the rule by setting a bar too high for brand owners to establish that products are counterfeit, a two-strike or perhaps a three-strike rule, if imposed pragmatically, holds promise.

To ensure effectiveness, any such proposed rule should be carefully designed in cooperation with the landlord and should take operational practicalities into consideration. Thought should be given to imposition of the rule on a gradual basis, as opposed to overnight, with notice of the new regime being provided to tenants well in advance of enforcement. Perhaps the tenants could be granted a period of time in which to clean up their acts voluntarily. Similarly, a willingness on the part of the brand owner to cooperate with the landlord in gathering details on infringers, scheduling terminations of tenants at the expiration of leases, or imposing new leases containing explicit provisions for eviction for counterfeiting could go a long way to obtaining a settlement that will eventually clean up a market.

***D. Maintain Realistic Goals,
Both Inside and Outside the Target Markets,
and Be Prepared for a Long-Term Fight***

Louis Vuitton brought its actions against the Canal Street landlords over four years ago. Since then, the police, Louis Vuitton, and other brand owners have continued to hammer away at the sellers on Canal Street as well as their landlords. Although sales of Louis Vuitton products have slowed and have moved out of fixed locations, fakes of other brands are still being sold openly. It may well be that the ongoing gentrification of Canal Street, and not independent actions against landlords, is what ends up being primarily responsible for the counterfeit cleanup of Canal Street.

Similarly, in the Silk Market, even the committed efforts and resources of 23 of the world's most well-known brands have been insufficient to clean up the market after almost three years of litigation, raids, and negotiations.

A pragmatic brand owner will therefore maintain its perspective, not expecting a market to be magically rid of fakes overnight. It will also budget appropriately for a long-term fight, and attempt to maximize its likelihood of success and minimize its own expenses by seeking to cooperate with similarly situated brand owners.

It will also try to extend either its successes, or perhaps even the uncertainty created by threats of litigation or ongoing litigation, elsewhere in the jurisdiction to force settlements with landlords of other markets. In Australia, for example, the impending action against the Carrara Markets and the risk that a decision against the landlord there might make civil actions against other landlords more likely were instrumental in pressing other markets across Australia to enter into settlements in which they promised to work with brand owners to take swift and strong action against sellers of fakes.

In China, the coalition of 23 brands has extended its efforts to other markets in Beijing, Shanghai, Guangzhou, and Shenzhen, by trying, to a degree, to play the landlords and local governments off each other to extract cooperation and to press for imposition of draft leases and new local rules in as many cities and districts as possible.

VI. CONCLUSION

In spite of very promising developments on landlord liability in a number of countries, most notably the United States and China, the slow development of the theory in other jurisdictions, and the unwillingness of police, prosecutors, and local government to prioritize such actions and the prohibitive cost of long-term legal actions against well-resourced landlords, will likely continue to inhibit a wide and rapid expansion of the theory to other jurisdictions.

Nonetheless, enterprising brand owners should not despair.

Resources poured into lobbying local government and police to support enhanced enforcement actions in markets where counterfeiting is severe—even if not directly against the landlords themselves—and a willingness to engage in pragmatic negotiations with those landlords could provide a means of laying the groundwork for the gradual extension of the theory. This is the case even in the absence of clear case law or statutes on point. For example, a two- or three-strike-rule-based settlement (where a trader repeatedly caught selling fake goods is automatically evicted from the market on the second or third offense) with a cooperative landlord in a market in which the police simultaneously agree to start a series of aggressive raids is a good starting point for lobbying and negotiation efforts with other landlords in the same jurisdiction. This is particularly effective if local officials can be brought into the settlement discussions and be convinced to pressure the landlord to see the wisdom of settling the dispute via such an agreement. It is also a good idea to focus these initial efforts on landlords on the cusp of cleaning up their own markets, pushing out fakes, and legitimizing their operations.

Brand owners keen to undertake such actions, but with more limited budgets, should seriously consider joining forces with others to take advantage of the economies of scale arising from their combined resources.

In the end, no brand protection professional should fool himself into thinking that landlord liability theory is the Holy Grail of anti-counterfeiting efforts that will result in markets selling fakes being swept clean overnight. “Success” in any landlord liability action (as defined by the brand owner organizing the action) will inevitably be reliant upon the depth of the brand owner’s resources, the willingness of enforcement officials and the courts to recognize and advance the theory, the level of risk to landlords who fail to cooperate, and the severity of the situation in the markets to be cleaned. Managing expectations and efforts related to these points will go a long way toward effecting a positive change in markets with landlord liability actions.
