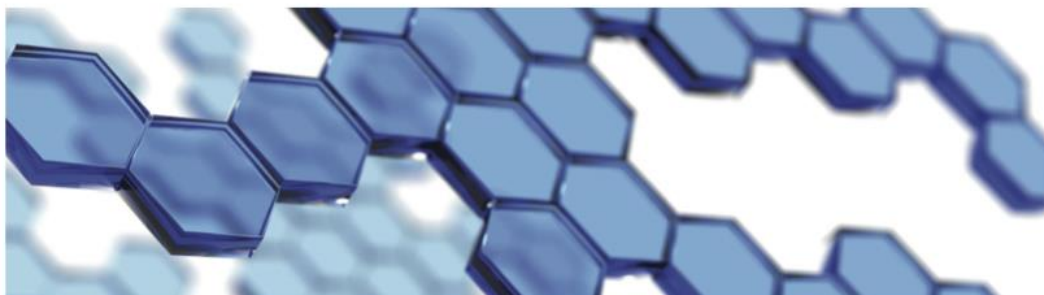


MEASURES TO ENGAGE LANDLORDS IN THE FIGHT AGAINST COUNTERFEIT AND PIRATED GOODS:

Best Practices for Landlords,
Governments and Enforcement Agencies



ICC ADVOCACY
BASCAP
Business Action to Stop Counterfeiting and Piracy



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BASCAP Measures to Engage Landlords in the Fight against Counterfeit and Pirated Goods

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Background

In March 2015, BASCAP published a major study to identify and eliminate vulnerabilities in the supply chain that enable the infiltration of counterfeit goods and copyright piracy. The report, [*Roles and Responsibilities of Intermediaries – Fighting Counterfeiting and Piracy in the Global Supply Chain*](#),¹ addressed a wide range of intermediary sectors involved in getting products and services to the final consumer, including suppliers of raw materials and components; transport, shipping and distribution companies; landlords and shop owners; online marketplaces, internet service providers, search engines, advertising networks and websites; credit card companies; and popular social media sites.

The research behind this report generated valuable cross-intermediary lessons learned and showed that established business practices can be effectively applied to protecting the supply chain from infiltration of counterfeit goods and copyright piracy, both offline and online. These practices include: establishing and enforcing clear contract terms; knowing customers and suppliers; developing industry standards and codes of practice; identifying and guarding against high-risk behavior patterns; adopting preventive tools; and deploying technologies that improve the effectiveness of many of the already adopted practices.

Where current efforts have been inadequate in protecting against intellectual property rights (IPR) infringements, BASCAP has introduced a collection of better, or best, practices to help responsible intermediaries more effectively deal with vulnerabilities in their operations. These recommendations aim to challenge the status quo and offer a roadmap for discussion, collaboration and resolution.

Overview

Landlords and property owners can become intermediaries in the illicit trade supply² chain if they rent—knowingly or unknowingly—their property to those involved in counterfeiting and other IPR infringing activities, whether for production, storage, distribution or retail use.

While instances exist of reputable retail outlets selling trademark-infringing goods, the focus of this paper is on counterfeit and pirated goods sold at markets or in small shops that “specialize” in offering fake goods. While landlords may oversee multiple properties or dozens of tenants and may be more concerned with collecting rent from business owners than monitoring tenant activities, they are nonetheless important intermediaries in the supply of goods.

Landlords are becoming more vulnerable as law enforcement officials, supported by new laws and regulations in some areas, are increasingly targeting owners and landlords that support counterfeiting

operations. A recent increase in the number of prosecutions confirms that landlords who are not vigilant about the activities that are taking place in their premises, are becoming victims of counterfeiters and incurring a dramatic increase in costs in damage penalties and legal fees.

If rights holders, trade inspectors and landlords work together to identify and address risks and then implement clear policies, they can effectively deny commercial premises to counterfeiters. This would have a substantial negative impact on counterfeiters' ability to continue their operations. BASCAP's *Best Practices for Landlords, Governments and Enforcement Agencies* provides a blueprint for all parties to effectively remove fakes from physical markets. Consistent and enduring application of these practices in markets is the best defense for disrupting trade in counterfeit and pirated goods and the best protection of shoppers from fraud.

Canal Street in New York is infamous for its daily counterfeit and "knockoff" markets. In 2008, police in New York seized over USD 1 million in counterfeit merchandise during the city's largest counterfeit bust that shuttered 32 stores, closed three whole buildings on Canal Street and included indictments against the landlords.³ Several brand owners, in different suits, have over the years pressed charges against landlords for facilitating the sale of counterfeit goods. In a landmark case against a Canal Street New York City retail landlord, the Court found that in marketplaces that exercise control and have few, if any, authentic products and few sellers, generalized knowledge could be sufficient for a finding of contributory liability.⁴

Best practices for landlords

1. Implement due diligence checks to ensure a basic understanding of who tenants are

Increasingly, governments require landlords to perform due diligence checks on tenants for immigration violations or money laundering activities. Screening prospective tenants' backgrounds and financial information carefully should be part of standard due diligence regarding counterfeiting and piracy as well.

- Checks should include identity and contact information listing the prospective tenant's true name and street address, as well as banking details or other identifying information. These steps could form part of wider due diligence processes including elements from Know Your Customer programs that assist landlords to adhere to stricter standards and identify and prevent other illegal activities on their premises.⁵
- Landlords should retain and update records containing identification and financial information throughout the tenant's lease of the property.
- Landlords leasing their premises to businesses that require special permissions/licenses from relevant national authorities to engage in such trade, should verify that the tenant has procured such permissions and is valid throughout the lease-period.

2. Include lease provisions prohibiting activities related to counterfeit and pirated goods; and to evict tenants in the event of IPR crimes

Landlords should update or amend the terms and conditions of lease agreements so all existing licenses and all such licenses entered in the future contain clauses specifically prohibiting activities related to

counterfeit and pirated goods to take place on the premises leased (*see below suggested model lease provisions*).

- Lease provisions should expressly state:
 - that the sale or storage of counterfeit and pirated products is prohibited; and
 - that landlords have the enforceable right to terminate the lease, forfeit the security deposit and evict any tenant which, the landlord has reasonable basis to believe, is offering or storing such goods.

3. Maintain a "No Counterfeit and Pirated Products Policy" for markets

In addition to clearly stated lease provisions, landlords should maintain a publicly visible “No Counterfeit and Pirated Products Policy” as part of the steps to stop the sale of counterfeit and pirated goods in markets. Landlords should use their best efforts to ensure that copies of the Policy remain on display in their facilities, e.g. on each relevant notice board and on websites that it operates to promote the market, etc.

- The Policy should state:
 - that tenants are not permitted to store, keep for sale, offer for sale or sell any counterfeit and pirated products at the market; and
 - that the landlord will take action to prevent any tenant from storing, keeping for sale, offering for sale or selling any counterfeit and pirated products in the market, including expelling that tenant and forfeiting the security deposit.
- Landlords should attempt to provide a copy of the Policy:
 - every 6 months to all permanent tenants; and
 - to each temporary tenant licensed by the landlord to operate in the market on each occasion that the landlord enters into any such license.

4. Perform periodic inspection of tenants’ shops and stalls for obvious counterfeit and pirated goods

As part of their regular safety and compliance checks, landlords should diligently monitor the market to detect tenants that are keeping for sale, offering for sale or selling counterfeit goods.

- Where counterfeiting activity is suspected, these inspections should be combined with reporting through established mechanisms to inform rights holders and law enforcement.
- Where counterfeit sales are regular occurrences, operators should post warning notices for consumers regarding the consequences of selling or purchasing counterfeit goods.

5. Establish co-operative working relationships with brand owners

To protect consumers and legitimate sellers and to maintain the integrity of marketplaces, landlords should establish cooperative working relationships with brand owners to facilitate the detection of counterfeits, removal of infringing goods and sanctioning of those engaging in the illegal activity.

- If a landlord observes any stall-holder keeping for sale, offering for sale or selling any product which the landlord suspects, but cannot state with certainty, is a counterfeit, the landlord should:
 - immediately provide brand owners (or its nominee) with the name, contact details and stall location of that stall-holder; and
 - wherever possible, provide brand owners (or its nominee) digital photographs of the product in question.
- If a landlord becomes aware of the illegal activity, the landlord should take prompt and effective measures to stop the infringements, including:
 - taking all such steps as are necessary to terminate the lease and expel the tenant from the market as soon as possible; and
 - ensure that the tenants are not permitted to operate at the market for a period of no less than three years from the date on which that stallholder is expelled from the market.

Best practices for governments

6. Clarify the conditions under which a landlord may be held liable for tenants or other temporary occupants that deal in counterfeit and pirated goods

The establishment of clear and precise landlord liability conditions can help improve cooperation between brand owners and landlords in dealing with counterfeit goods on a much more cost-effective basis and without the need to utilize government resources. In addition, distinction must be made between private and government-owned or supported markets; in doing so governments are encouraged to exhibit stronger commitment in ensuring that tenancies in their markets are strictly regulated to prevent the trade in counterfeits and pirated goods and lead as a model for privately owned markets.

- Ensure through new laws, regulations, administrative guidelines and judicial determinations, as appropriate, that landlords are held liable where:
 - after being put on notice of counterfeiting or piracy occurring on their premises, such landlords fail to proactively investigate the matter; and
 - upon confirming the facts, such landlords fail to take appropriate action to deter the tenants engaged in such activities, which may include terminating the leases of such tenants or otherwise removing them from the premises.

7. Consider alternative approaches to deter landlords who knowingly rent to tenants that deal in counterfeit and pirated goods

National, regional and local governments often have multiple legislative and policy tools at their disposal to address the problem of counterfeit and pirated goods. As these goods are illegal and often do not comply with legal standards, laws or rules, other fields besides IPR laws can easily be invoked and used to justify stringent action against landlords.

- Treat as proceeds of crime (i.e. money laundering) the rent income derived by landlords who knowingly rent or lease premises to the tenants that engage with counterfeit and pirated goods in such premises.
- Enforce existing health and product safety standards, labeling requirements and environmental norms to ban counterfeit goods.
- Increase the use of nuisance abatement laws and public-private task forces to target problem landlords. Cooperative relationships between multiple government agencies and rights holders have proven effective in addressing landlords who continue to facilitate illegal activities on their premises.
- Consider introducing higher penalties for landlords who are second offenders.

Best practices for enforcement agencies

8. Conduct regular and sustained enforcement

Successful efforts to engage landlords in the fight against counterfeits and pirated goods also require ongoing coordination with law enforcement. While there are some positive examples of voluntarily programs and the enforcement of laws and regulations, the steps to date have not been sufficient to deter or prevent counterfeiters' exploitation of malls and flea markets for the distribution of their goods.

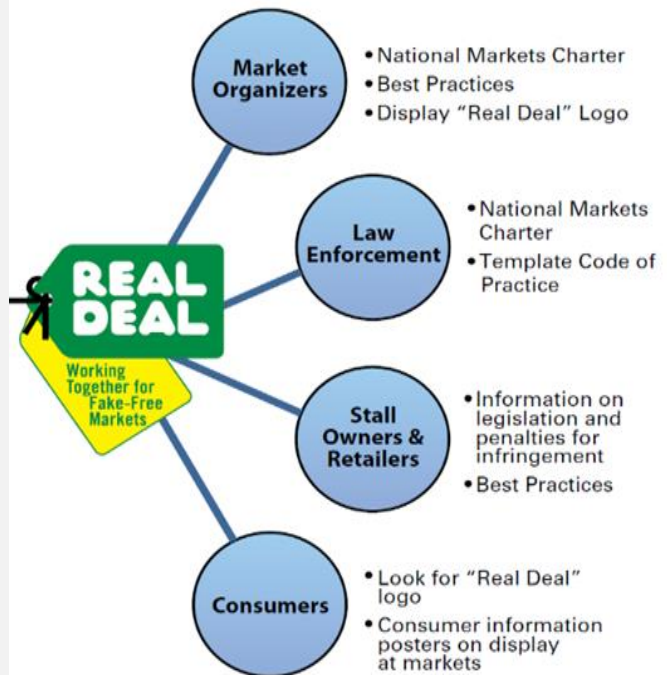
- Require landlords of tenants that have previously been found liable for counterfeiting or other IPR violations to take reasonable steps to prevent or otherwise control future violations on their premises, e.g., through regular searches of leased premises/stalls, the adoption of new lease contracts explicitly banning dealings in offending goods and the imposition of bans on tenant dealings in particular brands.
- For more notorious markets, conduct raids regularly to ensure that markets are kept "clean" for any sustained period of time. Even multiple successful raids may prove to be ineffective without ongoing action.
- Improved coordinating tools for law enforcement can encourage market organizers to collaborate with local governments, improving the effectiveness of both groups.
- Monitor consignments including shipments or small-packages entering and exiting premises belonging to tenants suspected of engaging in IPR infringing activities.

9. Increase landlord education: explain the benefits of participation in voluntary programs to avoid renting to criminals

Voluntary efforts are most successful when landlords understand that they can avoid prosecution, penalties and loss of property value, or when they see that they can attract customers by marketing their place of business as a "counterfeit-free" marketplace.

- Promote and implement formal landlord programs like the UK's Real Deal markets program (*see below*). By educating consumers about their choices, these types of programs help address demand as well as supply.
- In areas where there is a high degree of counterfeiting, consider adopting certified retailer programs.

The **Real Deal Campaign** is one shining example of a voluntary program started by the National Markets Group for IP Protection in 2009 in the United Kingdom. The campaign is a cross-sector, partnership initiative, bringing together local authority Trading Standards services, market operators and traders, industry groups and brand owners, who are united with a common commitment to prevent the sale of counterfeits. The national markets' charter, which has been created in consultation with all the partners in this initiative sets out key principles for market operators, local authority Trading Standards services, industry and trademark representatives to sign up to and abide by.⁶



10. Look beyond retail sellers and markets

Efforts to deal with landlords as an intermediary have focused on landlords renting to retail sellers. While these efforts are showing signs of success, more attention needs to be paid to landlords who provide space for manufacturing, packaging/re-packaging, storing and potentially office space used by counterfeiters and criminal networks.

Examples of secondary liability legislation

The Philippines

Section 216 of the Philippines IP Code provides for secondary liability for copyright infringements:

Section 216. Infringement: Any person infringes a right protected under this Act when one:

- (a) Directly commits an infringement;*
- (b) Benefits from the infringing activity of another person who commits an infringement if the person benefiting has been given notice of the infringing activity and has the right and ability to control the activities of the other person;*
- (c) With knowledge of infringing activity, induces, causes or materially contributes to the infringing conduct of another.*

The IP Office of the Philippines (IPOPHL) has explained that in order for a mall owner with a tenant who is selling copyright infringing goods (e.g., pirated movies) to be secondarily liable, the mall owner must (1) benefit from the infringing activity; (2) must have been given a notice of the infringing activity and a grace period to address the complaint; and (3) have the right and ability to control the activities of the tenant who is committing the infringement. The complainant has the burden of proof to provide evidence that all the three elements are present. If a landlord or mall owner is not aware

of the infringement, he cannot be held liable, even if he benefits from it (e.g. from rental payments) or has control over the premises, according to IOPHL.

The European Union

Article 11 of the Directive 2004/48/EC of the European Parliament and of the Council of 29 April 2004 on the enforcement of IPRs (Enforcement Directive) obliges EU Member states to ensure that IPR holders are in a position to apply for an injunction against intermediaries, online or physical marketplaces, whose services are used by a third party to infringe those rights.

Article 11. Injunction:

Member States shall ensure that, where a judicial decision is taken finding an infringement of an intellectual property right, the judicial authorities may issue against the infringer an injunction aimed at prohibiting the continuation of the infringement. Where provided for by national law, non-compliance with an injunction shall, where appropriate, be subject to a recurring penalty payment, with a view to ensuring compliance. Member States shall also ensure that right holders are in a position to apply for an injunction against intermediaries whose services are used by a third party to infringe an intellectual property right, without prejudice to Article 8(3) of Directive 2001/29/EC.

The Court of Justice of the European Union (CJEU) has confirmed that tenants of market halls who sublet the sales points to market-traders selling counterfeits fall within the concept of ‘an intermediary whose services are being used by a third party to infringe an intellectual property right’.⁷ The criteria for an injunction against an intermediary who provides services related to the letting of sales points in market halls are identical to those for injunctions that may be addressed to intermediaries in an online marketplace (see *L'Oréal/eBay C-324/09*) – namely, the injunctions must be effective, dissuasive, equitable and proportionate; they must not be excessively expensive, must not create barriers to legitimate trade and must not impose on the intermediary an obligation to exercise general and permanent oversight over its customers.

Suggested model lease provisions

BASCAP suggests the following model provisions for inclusion in lease deeds as a measure to deter tenants from engaging in any form of trade in counterfeit and pirated goods:⁸

1. The Tenant agrees that no activity will be performed or conducted on the leased premises that will amount to manufacture, storage, assembly, repackaging, offer for sale, sale or trade in counterfeit or pirated goods and by extension of the same the Tenant will not permit any counterfeit or pirated goods to be brought onto the leased premises;
2. The Tenant, along with the Tenant's employees and agents, agrees to comply with all applicable laws of the land including, without limitation, any intellectual property laws, rules and regulations;
3. The Landlord has the right to enter the leased premises to inspect the leased premises and/or to cause the Tenant to comply with applicable laws and instruct the Tenant to remove any counterfeit or pirated goods, if any;

4. Violation of any of the above provisions gives the Landlord the absolute right to resort to the remedies under the lease including immediate termination of the lease, eviction of the Tenant and/or forfeiture of the initial deposit amount;
5. The Tenant shall not hold the Landlord responsible for any loss or interruption of the Tenant's business arising from measures imposed by the Landlord to prevent the illegal activity of engaging in counterfeit and pirated goods; and
6. The Tenant agrees to indemnify the Landlord for any loss, damages or liability that the Landlord may incur from any act resulting from the Tenant's engagement with counterfeit and pirated goods. The Landlord also reserves the right to damages for loss of rentals due to the early termination of the lease and the recovery of any related ancillary costs including attorney fees for terminating the Tenant's illegal use of the leased premises to facilitate the engagement with counterfeit and pirated goods.

Conclusion

Landlords facilitate the trade in counterfeit and pirated goods when they provide a place to manufacture, store, offer for sale or sell these products. Landlords may knowingly or unknowingly rent the space needed for one or more of these activities. As landlords are typically not involved in inspecting goods on their premises, much of this activity goes unchecked until they receive notice from rights holders or raids from law enforcement.

This paper recognizes the vital role that landlords play in the global supply chain for legitimate commerce. Most intermediaries are reliable and responsible business partners who do not want to do business with criminals or facilitate illegal counterfeiting and piracy practices. The paper also addresses a wide range of challenges faced by landlords and presents well-researched measures to assist landlords, governments and enforcement agencies overcome these issues. The paper also provides suggested lease provisions to assist landlords create an additional deterrent for tenants from engaging in counterfeit in pirated goods.

If rights holders, trade inspectors and landlords work together to identify and address risks and then implement clear policies, they can effectively deny commercial premises to criminal actors. Successful efforts to engage landlords in the fight against counterfeit and pirated goods also require additional support by governments and ongoing coordination with law enforcement. BASCAP continues to offer support to interested landlords, governments and law enforcement agencies to implement the best practices outlined in this paper and generally, strengthen protection and enforcement of copyright and trademark laws to mitigate the trade in counterfeit and pirated goods.

Endnotes

¹ ICC BASCAP, “Roles and Responsibilities of Intermediaries – Fighting Counterfeiting and Piracy in the Global Supply Chain” (2015) available at <https://iccwbo.org/publication/roles-responsibilities-intermediaries/>.

² The illicit trafficking of counterfeit goods is often linked to other serious crimes. Illicit trade encompasses a wide variety of illegal trading activities beyond counterfeiting, including illicit “white” tobacco products, human trafficking, environmental crime, illegal trade in natural resources, arms and weapons and narcotics, smuggling of excisable goods, illegal pharmaceuticals and crop protection products, trade in substances that cause health or safety risks, and a variety of illicit financial flows. (UN Office of Drugs and Crime, *The Illicit Trafficking of Counterfeit Goods and Transnational Organized Crime* (2014); Europol, *Serious and Organised Crime Threat Assessment* (2013); United Nations Interregional Crime and Justice Research Institute, *Confiscation of the Proceeds of Crime* (2012); OECD *Illicit Trade Review* (2016); US Department of State, *The Global Illicit Trade in Tobacco, A Threat to National Security* (2015).

³ Frank Padavan, Former New York State Senator “Crackdown on Canal Street Highlight Counterfeit Good Epidemic” (2008) available at <https://www.nysenate.gov/newsroom/press-releases/frank-padavan/crackdown-canal-street-highlight-counterfeit-good-epidemic>.

⁴ *Omega SA v. 375 Canal, LLC*, No. 12 CIV. 6979 PAC, 2013 WL 2156043, at 3-4 (S.D.N.Y. May 20, 2013).

⁵ For more information on Know Your Customer programs and related due diligence processes, read ICC BASCAP, “Roles and Responsibilities of Intermediaries – Fighting Counterfeiting and Piracy in the Global Supply Chain” (2015) available at <https://iccwbo.org/publication/roles-responsibilities-intermediaries/>.

⁶ Real Deal Markets, United Kingdom available at <http://www.realdealmarkets.co.uk/about/about-real-deal/>.

⁷ *Tommy Hilfiger Licensing LLC, Urban Trends Trading BV, Rado Uhren AG, Facton Kft., Lacoste SA, Burberry Ltd v Delta Center a.s.* Case C 494/15.

⁸ The suggested measures are only to be treated as recommendations and does not constitute legal advice. BASCAP strongly recommends consulting local legislations, laws and rules for the effectiveness of the provisions before inclusion in any lease deed.
