

Japan - Risk management and the trademark infringement liability of online shopping mall operators - Lessons learned from Chupa Chups vs Rakuten

The Intellectual Property High Court has ruled that an online shopping mall operator could be held liable to pay damages if it fails to take swift action to delete items that infringe trademark rights from its website. The decision reversed an earlier ruling by the Tokyo District Court rejecting the plaintiff's claim for damages from Rakuten and holding the online store displaying the items responsible, not the operator.

Everyone is enjoying online shopping these days and operating an online "shopping mall" is a growing business activity. Rakuten is managing portal sites acting as gateways to the internet and it is the operator of one of the biggest online shopping malls in Japan, now also operating abroad following acquisitions in Europe and North America.

The Japanese Intellectual Property High Court issued a landmark decision in *Perfetti Van Melle S.p.A vs Rakuten* in February 2012 which confirmed an online shopping mall operator's duty to remove products sold by third party store owners infringing trademark rights. The judgment, the first of its kind in Japan, addressed the duty and potential liability of an online shopping mall operator with respect to trademark infringements by third party online store owners and also set out the conditions under which an online shopping mall operator may be liable for such trademark infringement.

In the *Rakuten* case, each store owner accessible through the online shopping mall portal owns its own store webpage displaying its goods. If the goods displayed on the webpage infringe third party trademarks, the owner of the trademark can petition the court to issue an injunction requiring the removal of the goods from the webpage and claim damages directly from the store owner. In this particular case, however, the owner of the popular "Chupa Chups" trademark sued Rakuten as the shopping mall administrator in order to prevent unauthorised sales of products bearing the famous trademark. The case involved hats and mugs with a logo similar to the famous candy's logo. The District Court as the court of first instance dismissed the claim because the shopping mall operator did not "use" the trademark by "sale" of the goods or "display [the goods] for sale".

The IP High Court did not reverse the lower court's conclusion for the reason discussed below. However, it took into account the actual function and authority of the shopping mall operator through a close examination of the contractual provisions between the mall operator and store owners and concluded that the mall operator could be held liable for trademark infringements committed by store owners in certain circumstances.

On the one hand, as held by the High Court, the mall operator's function and authority are not limited to providing and maintaining space for hosting a webpage for store owners, but the role covers the approval or rejection of store opening applications received from store owners and, in case of approval, includes providing store owners with an operating system and related services in return for store opening fees and service fees based on the revenue generated by the store via the online mall. Pursuant to the contract between the mall operator and the store owners, store owners undertake not to infringe third parties' intellectual property rights and the mall operator can temporarily suspend and prohibit store operations if necessary, thereby exerting functions of management and control over the operation of stores on its online portal. Thus, the mall operator, when recognising the existence of a trademark infringement, can take measures to stop the infringement by deleting the relevant contents or shutting down the stores, etc.

On the other hand, the High Court acknowledged that the operator could not necessarily become timely aware of infringements, and therefore, could not be reasonably expected to keep chasing trademark infringements. Even if there was a possibility that the products sold at a store featured on the online mall could trigger trademark issues, the store owner could act under the terms of a valid licence agreement or the products could be a genuine parallel import.

The High Court decision: a balancing act

Seeking to achieve a fair balance between the above two approaches, the High Court ruled that:

- (i) the mall operator should, following receipt of a complaint about trademark infringement received from a trademark owner, etc., hear the store owner and promptly investigate whether any infringement has taken place;
- (ii) as long as such action is being taken by the mall operator, there is no reason for the mall operator to be subject to an injunction or to be held responsible for damages;
- (iii) however, if such procedure is not taken, the mall operator should be held liable in the same way as the store owner; and
- (iv) therefore, if the goods infringing a trademark are not removed from the website within a reasonable time period after the operator has been made aware of the trademark infringement or reasonable grounds exist to show that the mall operator should have become aware of the trademark infringement, the mall operator may be subject to an injunction and a claim for damages for trademark infringement may be entertained.

The High Court also stated that the fact that the mall operator does not "use" the trademark without authorisation does not prevent the operator from being subject to an injunction because the target of the injunction should be considered from a social and economic standpoint even though the infringer is not in "use" of the trademark strictly speaking.

In this case, Rakuten deleted the display of products infringing the Chupa Chups trademark eight days after receiving a letter of complaint from the trademark owner. The High Court considered that Rakuten had taken corrective action within a reasonable time period and concluded it should not be liable to the trademark owner.

Policing obligations imposed on online shopping mall operators

There are many Japanese court judgments dealing with website operators' liability in the context of defamatory statements on internet bulletin boards and copyright infringement resulting from movies being uploaded onto websites. In the case of defamatory statements, the court often finds operators liable due to the difficulty for victims to identify an anonymous online offender.

In the context of the Rakuten online shopping mall, there is no issue of anonymity because, as required by the store opening contract, each store owner displays its contact details on its store website. The High Court nevertheless stated that Rakuten could be held liable to trademark owners in certain circumstances as discussed above, given the fact that no sales and purchase contracts can be closed without Rakuten's involvement and that Rakuten benefits from profits from sales. This notion led the High Court to a completely different conclusion from the District Court which had dismissed the claim for the formalistic reason that the mall operator does not "use" the trademark. The High Court judgment will be beneficial to trademark owners who have been suffering from trademark infringement by online shop owners.

Where Japanese legal concepts have been expressed in the English language, the concepts concerned may not be identical to the concepts described by the equivalent English terminology as they may be interpreted under the laws of other jurisdictions.

Contacts

If you would like to know more about the subjects covered in this publication or our services, please contact:



Landry Guesdon
Counsel

T: +(81 3) 5561 6622
E: landry.guesdon@cliffordchance.com



Miho Mizuguchi
Partner

T: +(81 3) 5561 6408
E: miho.mizuguchi@cliffordchance.com

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www.cliffordchance.com

Clifford Chance, Akasaka Tameike Tower, 7th Floor, 2-17-7 Akasaka, Minato-ku, Tokyo 107-0052, Japan

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