

CASE COMMENT: YINIAN (SHANGHAI) GARMENTS
TRADING CO., LTD. V. ZHEJIANG TAobao NETWORK CO.,
LTD. AND DU GUOFA

CHEN Jianmin

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I. PARTIES

Plaintiff: Yinian (Shanghai) Garments Trading Co., Ltd. (衣念服装贸易有限公司)

Defendants: Du Guofa (杜国发) and Zhejiang Taobao Network Co., Ltd. (浙江淘宝网络有限公司)

II. FACTS

The E-Land Ltd. (hereinafter E-Land) has registered the trademarks No. 1326011 and No. 1545520, which were both exclusively licensed to *Yinian* in China.¹ The garments bearing trademark *TEENIE WEENIE* are popular in the clothing market, and are regarded as a famous brand in Shanghai.

Du Guofa used the trademark *TEENIE WEENIE* to sell garments at his online store on *Taobao.com*. It was investigated that, from December 1, 2009 to February 1, 2010, twenty odd counterfeit garments were sold at Du's store, making total revenue of RMB 3,077. The retailing price for these counterfeit garments is one-fifth or even one-tenth that of the genuine one. In addition, the counterfeit ones were of poor quality, resulting in immeasurable depreciation of the trademark.

Since September 2009, *Yinian* had launched a large number of lawsuits against Taobao Network Co., Ltd. (*Taobao*) on the ground that the latter sold counterfeit products bearing the former's trademark. The courts presiding over these cases ruled to issue seven take-down notices to the seller Du Guofa, requesting *Taobao* to delete the information concerning the infringing goods issued by him and to take effective measures, such as proactive review and

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¹ Yinian Shizhuang Su Taobao 、Du Guofa Qinhai Shangbiao Qinquan Jiufen An (衣念时装诉淘宝、杜国发侵害商标侵权纠纷案) [The Trade Infringement Case of Yinian (Shanghai) Garments Trading Co., Ltd. v. Zhejiang Taobao Network Co., Ltd. and Guofa Du] (Shanghai No.1 Interim People's Ct., Apr. 25, 2011) (Chinalawinfo).

keywords screening, to stop the spread of infringing activities. However, *Taobao* failed to act correspondingly, but continued to connive and assist the infringing act conducted by Du Guofa.

Therefore, *Yinian* filed a lawsuit against Du Guofa and *Taobao* for trademark infringement before the court, claiming compensation for its aggregate losses at RMB 30,000 together with the reasonable expenses of RMB 54,900, including notary fee and attorney fee, and requesting the co-defendants Guofa Du and *Taobao* to make a public apology to *Yinian* at the portal websites *Sina.com*, *Sohu.com*, *Taobao.com*, and the *Morning News* journal.

Du Guofa argued that the garments sold by him were originally purchased from other websites, and that he did not know that they are committing infringement. *Taobao* argued that its duties had been discharged by its taking reasonable and prudent measures to protect the legitimate interests of *Yinian*. *Taobao* also submitted that *Yinian* abused its rights, for *Yinian* had filed a sheer volume of wrong complaints, which has impaired the reputation of *Taobao*. Therefore, *Taobao* plead that the court should dismiss *Yinian*'s claims.

III. PROCEDURAL HISTORY

The court of first instance, the Shanghai Pudong New Area People's Court, found that *Yinian* had the exclusive right to use the trademark No. 1545520 and the trademark No. 1326011 in class 25.² That the designated good by the trademark No. 1545520 is garments in class 25, and the designated goods by the trademark No. 1326011 are garments, shorts, suits, undershirts, shirts, underwear, scarves, half hoses, caps, and sport shoes in class 25. That according to the statistics of Shanghai Industry Association of Garments, Shoes, and Cap of years 2006 to 2008, women leisure clothes bearing the trademark *TEENIE WEENIE* produced by *Yinian* ranked top three in the market share of its industry, and ranked number five in the market share of similar products in the mainland China.³ And that women leisure clothes bearing the trademarks of *TEENIE WEENIE* and *E-LAND* manufactured by *Yinian* were elected by Shanghai Famous Brands Recommendation Committee to be one of the famous brands in Shanghai in 2009.⁴

Taobao is the operator of *Taobao.com*, which provides online transaction platform for users. According to the statistics provided by Taobao Network Co., Ltd., in the first half year of 2009, the total transaction amount of *Taobao.com* was RMB 80.9 billion, and the

² *Id.*

³ *Id.*

⁴ *Id.*

registered members of Taobao.com amounted to 1,450 million.⁵ During the first trial, Taobao argued that it had taken some proactive measures, issuing the “*Service Agreement for Taobao.com*”, “*Management Rules for Publishing Commodity Information*”, and “*Rules of Taobao.com Governing the Management of User Behaviors*”, which stipulated that *Taobao.com* users are forbidden to publish information which violates intellectual property rights of third parties and that users violating the above provisions should be subject to penalties. In addition, the above rules also set out the procedure of filing complaints, whereunder right holders may file complaints against Taobao by telephone, letter, and e-mail. Furthermore, *Taobao* explained the procedure of dealing with complaint on IP infringement and the handling processes on the determined infringing act, taking trademark infringement as an example.

Yinian argued that there were a sheer volume of vendors who published information about goods which infringes trademark rights. Statistics shew that, from September 29, 2009 to November 18, 2009, *Yinian* had made a total of 131, 261 complaints, 117, 861 of which were deleted after *Taobao*’s review. From February 23, 2010 to April 12, 2010, *Yinian* filed a total of 153,277 complaints about infringement against its trademark, 124,742 of which were deleted after *Taobao*’s review.⁶ The above complaints included 7 complaints against *Guofa Du* filed by *Yinian* from September 29, 2009 to November 11, 2009. Upon reception of *Yinian*’s complaints, *Taobao* deleted the information about the information about goods which infringed *Yinian*’s trademark and which was published by *Du Guofa*, but did not proceed to take any penalty measures against *Du Guofa*, and *Du Guofa* did not oppose to this with *Taobao* and *Yinian*. Until September 2010, *Taobao* took penalty measures against *Du Guofa* by reducing the credit used to evaluate online sellers. Such penalty would exert an influence on their prestige, which in turn influence their online sales.

On January 17, 2011, the Shanghai Pudong New Area People’s Court made a judgment, ruling that *Guofa Du* and *Taobao* must bear the joint liability to pay to *Yinian* RMB 3,000 to recover the economic losses and RMB 7,000 reasonable expenses. All the major submission of *Yinian* were upheld by the Court.

Du Guofa was satisfied with the judgment of first instance, but *Taobao* who was dissatisfied with the judgment, appealed to Shanghai First Intermediate People’s Court. Shanghai First Intermediate People’s Court confirmed the facts found by the first

⁵ *Id.*

⁶ *Id.*

instance court, and additionally found the facts that Yinian had been filing complaints with Taobao on the activities of trademark infringement on Taobao.com. In view of the above factors, the appeal was rejected and the second trial court upheld the judgment of the first instance court on April 25, 2011.

IV. PARTIES' CONTENTIONS

A. Issue 1: Whether Guofa Du's act of sale infringe the trademark right of Yinian?

Yinan argued that Du Guofa's act constituted trademark infringement on the ground that, upon numerous complaints and takedowns of the counterfeit goods, he continued to sell the goods bearing trademarks identical or similar with the trademarks which were exclusively licensed to *Yinian*, but failed to provide legitimate source of the goods.

In response, Du Guofa contended that the garments he sold were purchased from other websites, and that he did not use the trademarks, thus his selling of the garments did not constitute trademark infringement of any kind.

In the first trial, the Court found that *Yinian* Garments Trading Co. is authorized by E-Land Ltd. to use the registered trademarks No. 155520 and No. 1326011 on its products. That the trademark on the garments sold by Du Guofa resembled the two authorized ones to the extent that was likely to confuse consumers to tell. Therefore, his conduct constitutes infringement against the registered trademarks. That after finding out his infringement act, *Yinian* had made anti-infringement announcements to the Defendant for seven times, all of which, however, were simply disregarded and deleted by the defendant. The court thus held that *Taobao.com*, as the largest domestic online transaction platform, has the obligation and competence to manage and prevent the illegal behavior of its online sellers. In this case, *Taobao* had done nothing more than simply deleting the information about the counterfeit products at issue, and thereby aided the sellers to commit infringement. Therefore *Taobao* was jointly liable for abetting the trademark infringement.

B. Issue2: Whether Taobao, knowing that Du Guofa was selling counterfeit products, had took reasonable and necessary measures to stop the trademark infringement? If not, whether Taobao constituted a trademark infringement?

Yinian argued that *Taobao*, having acknowledged the considerable number of the former's complaints, did not take further measures, resulting in the continuous infringement, and should

thereby be held to bear management liability and joint compensation liability.

Taobao contended that it had taken measures to protect the trademark right of *Yinian*. *Taobao*'s inability to take further measures is solely caused by *Yinian*'s failure to provide effective evidence of trademark infringement.

VI. THE COURT'S RULINGS

E-commerce may cut transaction costs and make transaction more convenient, but it is easy to induce various infringements, for example the trademark infringement therefore the remedies to the infringement are worthy of noting.

In this case, Du Guofa, as a vendor of the online platform, should comply with laws, but not take internet as platform for trademark infringement. The arguments of Du Guofa that the sold goods were purchased from other websites were plainly bad and thus not supported by the court. The main reason was that Du continued the acts of trademark infringement after he was notified of the infringement, and he failed to provide legitimate source of the goods sold by him. This judgment is anticipated to erect a precedence of persuasive effect in the protection of legitimate interests of trademark holders, for it provided a strong warning signal for online vendors—they are prohibited from infringing trademark rights on the internet.

Where internet users commit infringing acts, the right holders are entitled to notify the internet service providers (hereinafter ISPs) to take necessary measures of deletion, screening, and stopping links. In this case, from September 29, 2009 to November 11, 2009, *Taobao* deleted the infringing information published by Du Guofa seven times after reviewing the complaints filed by *Yinian*, but did not take any further necessary measures against Du Guofa to stop the infringement. As the biggest Chinese internet service provider in online transaction, *Taobao* should be capable of managing infringing acts of online users, but *Taobao* did not provide for or take any other penalty measures except for simply deleting infringing goods information. This connived and helped the infringing act of Du Guofa. That is, *Taobao*'s intentionally facilitating Du Guofa in selling counterfeit goods constituted contributory infringement. Hence, *Taobao* had mens rea, and therefore should bear joint and several liabilities. That being said, the court did not give an aggravated punishment against the ISPs, but just warned the ISPs that, when pursuing its own economic interest, they are obliged to undertake social responsibility for protecting intellectual property

rights. This is another positive social value reflected by the judgment.