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HONG KONG COURT IMPOSES PUNITIVE COSTS IN FAILED IP CLAIM AGAINST ALIBABA CITING FORUM SHOPPING AND NON-DISCLOSURE

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Legal Briefings

Judgment is a timely reminder of the territorial limits of IP rights as indemnity costs awarded to Chinese tech giant

The internet is borderless, but trademarks are not. A recent Hong Kong case serves as a reminder of the territorial nature and limitation of intellectual property (IP) rights. In *Mary Kay Inc and Others v Zhejiang Tmall Network Co, Ltd and Others* [2021] HKCFI 1403, the Hong Kong Court of First Instance (CFI) awarded indemnity costs against the plaintiffs for attempting to establish local jurisdiction under the guise of IP infringement for a complaint not recognised under Hong Kong law and for failing to disclose material matters when making an *ex parte* application for leave to serve proceedings out of jurisdiction. The plaintiffs subsequently sought permission to appeal against the decision but was also refused unanimously by the Court of Appeal recently in [2022] HKCA 360.

The first instance judge, notably, had held that the case constituted another attempt by a brand owner to use the Hong Kong court to establish jurisdiction for alleged infringing activities that primarily occurred in mainland China.

While the judge recognised there may be legitimate reasons for a brand owner to commence an action in Hong Kong as opposed to mainland equivalents, this case is certainly not one that should have been brought in Hong Kong.

In short: trademark owners must take great care when bringing IP claims in a jurisdiction with limited connection to their claims. This decision also sends a clear warning that a litigant risks a punitive indemnity costs order if they attempt to launch claims at an inappropriate forum and choose not to give full disclosure when making an *ex parte* application, where the other party is unaware of the legal process.

THE CASE IN DEPTH – THE BACKGROUND

The plaintiffs are a group that market skin care and cosmetics products under the trademark of "Mary Kay" through the direct-selling or network-marketing model. This meant the plaintiffs' representatives can only market their products by direct sales and are prohibited from selling those products at retail levels, including online forums.

The first to third defendants (D1 to D3) belong to the Chinese technology giant Alibaba Group, which operates e-commerce platforms including Taobao and Tmall (D1 and D2, together the two Tmall Companies; D1 to D3, together the Alibaba Group Companies). The fourth defendant (D4) and fifth defendant (D5) are mainland Chinese companies that operated shops on the Tmall platform.

Plaintiffs' claims were for trademark infringement and passing-off based on trap orders placed by their solicitors with the shops operated by D4 and D5 on the online platforms of the Alibaba Group Companies. These trap orders – a form of test purchase aimed at establishing a legal basis for a claim – involved genuine "Mary Kay" products but with the production lot codes removed. D1 and D2 applied to set aside an order granting leave to serve the writ out of jurisdiction on them, while D3 opposed the plaintiffs' application for default judgments against D4 and D5.

THE FIRST INSTANCE DECISION

Lok J of the CFI set aside the service of the writ on the two Tmall Companies, with indemnity costs awarded against the plaintiffs, and refused to grant default judgment.

Regarding the setting aside application, the CFI found no serious issue to be tried against D4 or D5 in respect of the trademark infringement and passing-off claims. In particular, the CFI held:

- Not all changes to the physical condition of goods give the proprietor a legitimate excuse to rely on their trademark to prevent further commercialisation of their goods. It is only if the condition of the product inside the packaging is adversely affected that the proprietor can rely on trademark rights. Since cutting a small hole to remove the production codes did not change or impair the conditions of the products, the defendants were entitled to rely on the Exhaustion of Rights defence under Hong Kong's Trade Marks Ordinance (Cap. 559). Further, the CFI had serious reservations as to whether the alleged infringement occurred in Hong Kong, as trademark rights are strictly territorial in nature.

- The passing-off claims were unmeritorious as there was no misrepresentation made by D4 or D5, let alone misrepresentation made in Hong Kong; and the products in question were genuine products that originated from the plaintiffs.

Relying on *L'Oreal v eBay [2009] RPC 21*, the CFI also held there was no triable issue on whether the two Tmall Companies were liable as online platform operators. In Lok's words, the plaintiffs' "obvious aim [was] to halt online sales by framing this action as a typical infringement action, bringing in the operators of the neutral online platforms for, *inter alia*, publicity and deterrent effect", despite the fact that the two Tmall Companies had taken prompt action to respond to the complaints made by the plaintiffs and had removed the online stores or the products in the complaint before the plaintiffs applied for service out.

Further, the CFI found no basis for the plaintiffs to serve the writ outside the jurisdiction and Hong Kong was not an appropriate forum to try the claims, as the plaintiffs only relied on the trap purchases placed by their solicitors to create jurisdiction.

Critically, the plaintiffs had deliberately omitted to disclose a number of significant matters when making the *ex parte* application for service out, including (i) that the products in the complaint were genuine; (ii) the Alibaba Group Companies' reliance on the legal defence of Exhaustion of Rights; (iii) that there was no evidence that D5 committed any acts within the jurisdiction; (iv) that the online stores in question were all targeted at mainland Chinese customers; (v) the defence available to neutral online platform operators as demonstrated by *L'Oreal v eBay*; and (vi) that there may exist another potential and perhaps more appropriate forum to try the claims.

Regarding the default judgment application, the CFI exercised its discretion not to grant default judgment against D4 and D5, for the following reasons:

- Given the two Tmall Companies' successful setting aside application, the CFI would have to proceed on the basis that leave to serve the writ out of jurisdiction on D4 and D5 was improper.
- The CFI should consider the potential risk of injustice to the Alibaba Group Companies if judgments were entered against D4 and D5 at this stage.
- There was no substantial prejudice caused to the plaintiffs if the CFI did not grant default judgments at this stage, because all the alleged infringing acts had ceased before the commencement of the action.

The CFI ordered costs of the setting aside application in favour of the two Tmall Companies against the plaintiffs on an indemnity basis.

APPEAL

The plaintiffs applied for leave to appeal against Lok's decision on issues including material non-disclosure, submission to jurisdiction and default judgments. The application was dismissed by the Court of Appeal (CA), in particular:

- The CA rejected the plaintiffs' broad proposition that in an application for service out, a failure to refer to potential grounds of defence will not amount to material non-disclosure and held this is not only wrong in principle but is also not supported by the cases. As a matter of law, whether materials relevant to a potential ground of defence ought to be disclosed in an application for service out must depend on the circumstances.

- The CA also had considerable reservation on the plaintiffs' argument that "because Tmall has stringent onboarding requirements, it is therefore not to be regarded as a 'neutral' platform operator". The Court was convinced that it defies common sense to say the more conscientious a platform operator is in protecting IP rights, the more easily it will fall victim to allegations of jointly committing a tort.

- Regarding the plaintiffs' submission that D3 had no right to oppose default judgment applications on the merits on behalf of D4 and D5, the CA held that since the plaintiffs were seeking orders which expressly referred to "www.tmall.com", "www.taobao.com" and "Tmall platform", and they had not taken out any application to strike out D3's evidence which they considered to have been improperly filed, D3 has sufficient interest to oppose the applications.

The CA further ordered that the plaintiffs shall pay the costs of D1-D3.

This article first appeared in our Asia Disputes Notes blog.

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If you have any questions, or would like to know how this might affect your business, phone, or email these key contacts.

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