

When the battle heats up

According to the principles of traditional Chinese medicine, excessive heat can harm the body. A case involving the brand 王老吉 seems to prove this theory well

The Chinese herbal tea brand 王老吉 (pronounced as 'wang lao ji' in Mandarin or 'wong lo kat' in Cantonese) originated in 1828 during the Qing dynasty. The mark owner, Guangzhou Yangcheng Pharmaceutical, which later changed its name to Guangzhou Wanglaoji Pharmaceutical Co, Ltd, is a subsidiary of the state-owned Guangzhou Pharmaceutical Holdings Limited.

In 1997 Guangzhou Pharmaceutical licensed the right to use the 王老吉 trademark to Hong Kong company Hung To Group Co, Ltd. The licence was first renewed in 2000, extending it to 2010, and then again in 2002 and 2003 to extend it to 2013 and 2020, respectively. Hung To's subsidiary JDB Beverage Co, Ltd was the producer and distributor in mainland China. The herbal tea was available in two types of packaging: a red can, sold by JDB, and a green carton, sold by Guangzhou Pharmaceutical. Both types of packaging used the 王老吉 trademark.

JDB's sales increased more rapidly than those of Guangzhou Pharmaceutical: in 2004, JDB had sales of around Rmb1 billion compared to Guangzhou Pharmaceutical's sales of Rmb80 million, and in 2008 JDB's sales exceeded Rmb10 billion.

Trademark tussles

The battle between Guangzhou Pharmaceutical and JDB formally started in 2011 in an arbitration in which the 2002 and 2003 licence renewal agreements were held to be invalid because they had involved bribery. Thus, the valid trademark agreement had expired in 2010, and since that time Hung To Group and JDB had had no right to use the 王老吉 trademark. In 2012 Guangzhou Pharmaceutical initiated various legal actions against JDB's distributors on the grounds of trademark infringement, including civil litigation, Administration

of Industry and Commerce actions and customs seizures. JDB was forced to stop using the 王老吉 trademark on the packaging of its herbal tea.

New fight over advertising

Just when it seemed as if the trademark battle between Guangzhou Pharmaceutical and JDB had finally concluded, a new battle began over the advertisements used by the two companies. JDB started to use the trademark 加多宝 (the Chinese version of 'JDB') on packaging and the following statements in its advertisements:

- “王老吉 has changed its name to 加多宝”; and
- “The red can of herbal tea with top sales nationwide has changed its name to 加多宝”.

Guangzhou Pharmaceutical immediately sued JDB for infringement and false publicity, and the court held that JDB should stop such advertisements and pay more than Rmb10 million in damages to Guangzhou Pharmaceutical. Both parties appealed, with Guangzhou Pharmaceutical claiming that its actual economic loss was more than Rmb3 billion.

At the same time, Guangzhou Pharmaceutical adopted the slogan, “If you do not want excessive internal heat, drink 王老吉” in its advertisements, which used to be the well-known slogan used by JDB. JDB sued Guangzhou Pharmaceutical for unfair competition, claiming that as it had created this slogan and used it on its well-known herbal tea, the slogan carried the good faith and reputation of JDB, and Guangzhou Pharmaceutical's act of copying the slogan took advantage of the good faith established by JDB and could cause confusion among consumers. However, the court held that

although the slogan had been created by JDB, it was designed for promotion of the trademark 王老吉. It also held that in the slogan, “If you do not want excessive internal heat” described the function of the product, and “drink 王老吉” designated the brand. Since JDB was no longer licensed to use the trademark 王老吉, it could not stop Guangzhou Pharmaceutical, as the legitimate user of the trademark 王老吉, from using the slogan. Thus, the court rejected JDB's claims.

Article 9 of the Anti-unfair Competition Law states that an operator may not use advertisements or other means to give false or misleading publicity as to the quality, composition, performance, use, manufacture, useful life or origin of the goods. Article 14 provides that an operator may not utter or disseminate falsehoods to damage the goodwill of a competitor or the reputation of its goods.

In the two disputes regarding advertisements, JDB's advertisements were forbidden while Guangzhou Pharmaceutical's advertisements were allowed.

- In regard to JDB's advertisements,
- “王老吉 has changed its name to 加多宝” – since JDB was no longer licensed to use the trademark 王老吉, this expression in the advertisement constituted unauthorised use and JDB could not claim fair use, since the phrase did not describe the facts accurately. The phrase ‘changed its name’ means that the former name had been completely replaced by the new one; however, in fact 王老吉 still existed, but was operated by a different company. Thus, such advertisement was considered to be misleading.
 - “The red can of herbal tea with top sales nationwide has changed its name to 加多宝” – this advertisement did not

use the trademark 王老吉 directly, and its expression seemed to be fair and true (ie, JDB's sales of herbal tea were among the top in the market and the new name was 加多宝). However, the disputed issue was which company should enjoy the reputation and benefit gained through the success of the business: the mark owner (Guangzhou Pharmaceutical) or the provider of the product (JDB).

Following traditional trademark theory, the reputation of a product rests with the trademark and whoever owns the trademark should enjoy the benefit of such reputation. However, in some licence relationships the licensee may contribute to the brand much more than the licensor (eg, in terms of brand strategy design, advertising expenses, quality improvement and customer services). In such cases, after the termination of such licence relationship, could the licensee continue to promote its success in the previous business operation without mentioning the trademark? Is its only option to start again from scratch with a new brand? It seems that more elements, as well as the intention of the law, should be considered.

In regard to Guangzhou Pharmaceutical's advertisements, the slogan "If you do not want excessive internal heat, drink 王老吉" included two types of IP right: trademark and copyright. The court's reasoning focused on the ownership of the trademark, but failed to recognise the copyright in the slogan created by JDB. The disputed issue was whether the slogan could constitute a work protectable as copyright. Some might consider the slogan too simple to be protected by copyright. However, the fundamental standard of copyright is not complexity, but rather originality. Some works of art may look simple, but are actually highly original and creative. In order to determine originality, the creation process of the slogan would need to be examined and the burden of proof would rest on JDB.

If it was found that the slogan was protected by copyright, it could make the case more interesting, as neither JDB nor Guangzhou Pharmaceutical would be able to use the slogan unless authorised to do so by the other party.

The war goes on

In 2012 JDB spent more than Rmb7 billion on advertisements, while Guangzhou Pharmaceutical spent just Rmb500 million.



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As head of the trademark department, Gloria Wu has assisted brand owners from all over the world in devising and implementing tailored strategies for trademark protection in China, with regard to both prosecution and litigation. She is also experienced in dealing with cases involving different types of IP right, such as trademarks, copyright, design patents and domain names.

Both companies are treating their disputes as a battle to the death and are determined to fight on to the end, thus providing a vivid legal lesson about trademarks, advertisements and unfair competition. [WTR](#)