

INTELLECTUAL PROPERTY MOOT COURT PROBLEM**In The Guangzhou Intermediate People's Court of Guangdong
Province****Guangdong Xinghua Pharmaceutical Holdings Limited.****as PETITIONER****V.****Guangdong Hongzheng Beverage, Co., Ltd.****as RESPONDENT****Facts**

The following are undisputed facts for the two sides.

I

1. Dating from about 180 years ago, “王阿祥” (pronounced “Wang Axiang” in Chinese, hereinafter referred to as “Wang Axiang”) Herbal Tea was invented by 王富祥 (pronounced “Wang Fuxiang”), the ancestor of Wang family. According to a unique recipe, Wang Fuxiang used several different local herbs to make the herbal tea. This herbal tea has the function of helping to reduce sensitivity to hot temperatures, and also it is quite cheap. The Cantonese were fond of drinking it. In about 1830, the herbal tea shop was officially established, and the tea was named as “Wang Axiang”.

2. The descendants of Wang Fuxiang further popularized “Wang Axiang” Herbal Tea, expanding distribution to the Guangdong and Zhejiang provinces and the tea becoming very popular there. As the Cantonese went abroad to make a living, the herbal tea also reached the markets of Southeast Asia and of the United States of America. It began to earn reputation in Chinese community there, and gradually

became a traditional and reputable brand around South China and Southeast Asia.

3. After 1949, mainland China was in a changeable situation. Like many other reputable old brands, the brand of “Wang Axiang” Herbal Tea was nationalized during the socialist transformation period. The related business was succeeded by a state-owned enterprise, which is today’s Guangdong Xinghua Pharmaceutical Holdings Limited (hereinafter referred as “Xinghua Pharmaceutical”). Owing to historical reasons (many old brands were considered as capitalism business and forbidden to use), during the following decades, the “Wang Axiang” Herbal Tea brand was not used in mainland China. In the mean time, the brand continued to be used for sale of the same type of tea to the Chinese community outside the mainland, such as in Hong Kong, Taiwan, Southeast Asia, the U.S., etc. Outside of China, the brand continued to be owned by some descendants of Wang Fuxiang, who had left China at the beginning of the 20th century.

4. In the late 1970s, China adopted the reform and opening-up policy. In 1982, the Chinese Trademark Law was issued. In 1983, Xinghua Pharmaceutical registered “Wang Axiang” as a trademark, and launched production and sale of “Wang Axiang” Herbal Tea packaged in green box (Figure 1). Because it was principally a pharmaceutical company and had no experience with herbal tea or with the different marketing channels and promotion methods used for beverages, Xinghua Pharmaceutical did not focus much attention or effort on promoting the herbal tea. As a result, the sales volume for “Wang Axiang” Herbal Tea was not large.



Figure 1

5. Xinghua Pharmaceutical has kept renewing the registration of this trademark, and it remains the legitimate registrant of this trademark in mainland China. This registered trademark was approved to be used for commodities in Category 32.

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6. In 1990, Guangdong Hongzheng Beverage Co., Ltd. (hereinafter referred to as “Hongzheng Company”) obtained the recipe for “Wang Axiang” Herbal Tea from Wang Youyi, a descendant of Wang Fuxiang and the current owner of the “Wang

Axiang” brand outside of the mainland. Hongzheng Company was approved by Wang Youyi to use the trademark of “Wang Axiang” to produce and sell herbal tea. However, its products were prevented from mainland China, because the trademark right holder in mainland China is Xinghua Pharmaceutical.

7. In 1994, Hongzheng Company asked Xinghua Pharmaceutical for a trademark license within mainland China. Given its focus on pharmaceuticals, Xinghua Pharmaceutical paid little attention to the “Wang Axiang” brand and agreed to the license.

8. Specifically, it was agreed that Xinghua Pharmaceutical would continue to produce and sell green boxed “Wang Axiang” Herbal Tea, while Hongzheng Company would obtain an exclusive license to produce and sell red canned “Wang Axiang” Herbal Tea. Both parties would operate independently and would not use each other’s packaging and decoration. Hongzheng Company would pay ¥3,000,000 per year royalties for use of the trademark, and the term of the agreement would be for 10 years. The two parties signed the contract on March 25th, 1994.

9. The green boxed herbal tea with a bitter flavor differs from the red canned with a sweeter flavor. The recipe of the former was submitted by a descendant of Wang Fuxiang staying in mainland China during socialist public ownership reconstruction period, while the recipe of the latter came from Wang Youyi.

10. In 2002, before expiration of the original agreement, the two parties agreed to extend the trademark license agreement for an additional six years. This permitted Hongzheng Company to use “Wang Axiang” trademark up to 2010.

III

11. After signing the original agreement in 1994, Hongzheng Company designed the decoration of red can (Figure 2).



Figure 2

12. Hongzheng Company invested substantial funds and efforts to market “Wang Axiang” Herbal Tea. Hongzheng Company became the principal sponsor of many domestic popular television shows and sports competitions. After the 2008 Wenchuan earthquake in Sichuan Province, it donated ¥100 million to Wenchuan. Hongzheng Company also took advantage of the 2003 SARS outbreak to promote its brand. Many Chinese people believe that traditional Chinese medicines can improve the condition of bodies, so Hongzheng Company advertised that “Wang Axiang” Herbal Tea prevents inflammation from viruses. As a result, herbal tea was generally accepted as a health drink, and became a common household beverage like cola and juice. Because of Hongzheng Company’s promotional efforts, “Wang Axiang” also became widely recognized throughout the mainland of China, and not just in the Guangdong district.

13. Although various promotion activities of Hongzheng Company were focused on “Wang Axiang” brand, the herbal tea appearing in the advertisements was in red can. Therefore, the sale volumes of red canned “Wang Axiang” Herbal Tea increased sharply, which rose to more than ¥10 billion.

14. Meanwhile, Xinghua Pharmaceutical was still producing green-boxed “Wang Axiang” Herbal Tea. Due to the substantially smaller advertising investments, and limited channels for the herbal tea by Xinghua Pharmaceutical which continued focusing on pharmacy marketing, green boxed “Wang Axiang” Herbal Tea did not initially catch on with consumers. Xinghua Pharmaceutical adopted the strategy of following the red canned and sought to associate itself with the good reputation created by the red canned herbal tea. Thereafter, the sales volume of the green boxed increased significantly, reaching ¥1 billion per year. However, compared with the red canned tea sales, there was still a long distance to go.

IV

15. The huge success of “Wang Axiang” Herbal Tea signaled to the market that Chinese were fond of this kind of healthy beverage. Many companies then began to produce and sell their own brands of herbal tea.

16. In 1998, Baxian Company started producing and selling canned herbal tea with the trademark of “八真味”(pronounced “Ba Zhen Wei” in Chinese, hereinafter referred to as “Ba Zhen Wei”), and the similar design of golden characters in a red background (Figure 3) were adopted to decorate its cans. In May 2003, Hongzheng Company submitted a case to Foshan Intermediate People’s Court of Guangdong Province, claiming that the “Ba Zhen Wei” red can design was similar to that of its own red can and infringed upon Hongzheng Company’s rights.



Figure 3

17. In that case, the court held that Hongzheng Company was the legitimate operator and actual producer of the red canned “Wang Axiang” Herbal Tea, and had the exclusive right to use the red can decoration of figure 2. Hongzheng Company had proved that “Wang Axiang” Herbal Tea had already become a known commodity in China, and as its decoration was not a common decoration for herbal tea it qualified as a “specialized decoration of the known goods” under the second item of Article 5 of *Anti-unfair Competition Law of People’s Republic of China*. The court held that “Wang Axiang” Herbal Tea” was sold all over the country, and has a long history and enjoys a good reputation, especially in Guangdong province and Southeast Asia. Therefore it should be recognized as the ‘known goods’.” “As part of the ‘Wang Axiang’ Herbal Tea series, red canned herbal tea is inseparable in the public’s mind from the known ‘Wang Axiang’ Herbal Tea. In addition, Hongzheng Company has advertised the red can extensively, so the red canned ‘Wang Axiang’ Herbal Tea should also be identified as ‘known goods’.” “The right to the specialized decoration of known goods occurs when the goods become known. It is a civil right having exclusive effects. This right can not be separated from the known goods, and it is enjoyed by the legitimate operator of the known goods.” “It can be affirmed that Hongzheng Company enjoys the right to the specialized decoration of known goods.” After comparing the decoration of “Ba Zhen Wei” red can and “Wang Axiang” red can, the court held that they were similar and might confuse consumers. Accordingly, the decoration of “Ba Zhen Wei” red can infringed upon Hongzheng Company’s right to the decoration of red canned “Wang Axiang” herbal tea, and was enjoined from using.

V

18. The trademark license agreement expired in 2010. Xinghua Pharmaceutical had no desire to permit Hongzheng Company to continue using the “Wang Axiang” trademark, and refused to extend the agreement. Nevertheless, Hongzheng Company kept producing and selling its red canned “Wang Axiang” Herbal Tea.

19. In 2011, Xinghua Pharmaceutical sued Hongzheng Company in Guangzhou

Intermediate People's Court of Guangdong Province and requested it to stop using the "Wang Axiang" trademark. Hongzheng Company answered that it was Hongzheng Company that made "Wang Axiang" Herbal Tea develop and grow, under exclusive authorization from Wang Youyi to use the "Wang Axiang" brand. Furthermore the recipe Hongzheng Company used was obtained from Wang Youyi and was the real Wang Axiang formulation, Hongzheng Company should be the real right owner of the "Wang Axiang" brand.

20. The court decided that the ownership of the "Wang Axiang" trademark belonged to Xinghua Pharmaceutical, the registrant of the mark, and that Hongzheng Company was only the licensee of the trademark. Since the license agreement had already expired, Hongzheng Company was prohibited from further use of the "Wang Axiang" trademark on its red canned Herbal Tea.

VI

21. When the dispute about the ownership of the "Wang Axiang" brand arose, Hongzheng Company had already begun to develop plans to change its trademark to eliminate the use of "Wang Axiang". Hongzheng Company registered "弘正和"(pronounced "Hong Zheng He") as a trademark in 2011, and in 2012 began to use it on its herbal tea, but kept the old red can design. The new product looked very much the same as the old one, except for the change to the three large Chinese characters (Figure 4).



Figure 4

22. Hongzheng Company invested more than ¥1 billion to promote the new brand. It again became the principal sponsor of many popular television shows, and of a variety of important sporting events. Hongzheng Company even invited Wang Youyi, the owner of "Wang Axiang" trademark overseas, to be its Honorary Chairman. In advertisements, Wang Youyi declared that she had given "exclusive" authorization to the "only real" recipe for "Wang Axiang" Herbal Tea to Hongzheng Company. As a

result, it was widely accepted among consumers that the new red canned “Hong Zheng He” Herbal Tea was exactly the old red canned “Wang Axiang” Herbal Tea, and even more authentic.

VII

23. After taking back the license for the “Wang Axiang” trademark from Hongzheng Company, Xinghua Pharmaceutical started producing and selling red canned “Wang Axiang” Herbal Tea (Figure 5). The design for Xinghua Pharmaceutical’s red canned herbal tea was almost the same as that for the old red canned “Wang Axiang” Herbal Tea that had been produced under license by Hongzheng Company, except for certain differences in introductory information.



Figure 5

Disputes

24. In 2014, Xinghua Pharmaceutical sued Hongzheng Company in Guangzhou Intermediate People’s Court of Guangdong Province, claiming that ownership of the red can design belonged to Xinghua Pharmaceutical for it was the “specialized decoration” to “Wang Axiang” herbal tea, the “known goods”, under the second item of Article 5 of *Anti-unfair Competition Law of People’s Republic of China*, and requested Hongzheng Company to stop using the design in “Hong Zheng He” Herbal Tea.

25. Hongzheng Company counterclaimed that Hongzheng Company owned the red can design, and requested that Xinghua Pharmaceutical stop using the same or similar red can design on “Wang Axiang” Herbal Tea.

Appendix: Relevant Statutes as Cited by the Parties

Unofficial English Translation	Chinese Texts
<p><i>THE ANTI-UNFAIR COMPETITION LAW</i></p> <p>Article 5 A trader shall not conduct business that injures a competitor by:</p> <p>...</p> <p>(2)using, without authorization, the name, packaging or decoration specialized to known goods or using a name, packaging or decoration similar to the name, packaging or decoration specialized to known goods, so that his goods are confused with the known goods of another person, causing buyers to mistake them for the known goods of the other person;</p>	<p>《反不正当竞争法》</p> <p>第 5 条 经营者不得采用下列不正当手段从事市场交易，损害竞争对手：</p> <p>.....</p> <p>（二）擅自使用知名商品特有的名称、包装、装潢，或者使用与知名商品近似的名称、包装、装潢，造成和他人的知名商品相混淆，使购买者误认为是该知名商品；</p>