

Supreme People's Court Issues Decision of Review in Case of Italian Ferrero SPA v. Montresor Company and Zhengyuan Company for Unfair Competition

By China Sinda

The case filed by Italian Ferrero SPA (hereinafter, "Ferrero") against Montresor (Zhangjiagang) Food Co. Ltd. ("Montresor") and Tianjin Economical and Technological Development Zone Zhengyuan Distribution Co., Ltd ("Zhengyuan") for unfair competition has received considerable attention in the field. Recently, the Supreme People's Court issued a judgment in the appeal for review lodged by Montresor.

The Ferrero Rocher chocolates produced by Ferrero were put on market in 1982. In Feb. 1984, the Ferrero Rocher chocolates entered the Chinese market on consignment via China National Cereals, Oils and foodstuffs Import & Export Corporation. The chocolates were typically sold at duty free shops, airports stores and other places that were allowed under the Chinese policies at that time, and this situation lasted until 1993. The Ferrero Rocher chocolate has the following main features in packaging and decoration: (1) Each ball-like piece of chocolate is wrapped in golden paper. (2) The golden ball-like packaging has an elliptical, gilt-edged label bearing the trademark "FERRERO ROCHE" for decoration. (3) Each golden ball-shaped piece of chocolate is supported on a decorative, brown paper base. (4) Different shapes of plastic transparent packages are used to reveal the golden ball-shaped interior packaging. (5) An elliptical, gilt-edged pattern is formed on the plastic transparent package for decoration, and the pattern and trademark of the product are provided in the ellipse, with a reddish golden ribbon-shaped pattern extending from the trademark.

Montresor manufactured and sold Tresor Dore Chocolates, and the main features of the packaging and decoration of Montresor's Tresor Dore Chocolate products, distributed by Zhengyuan, are substantially the same as those of Ferrero Rocher chocolates.

Considering that the acts of Montresor and Zhengyuan had constituted unfair competition, Ferrero brought an action before the Tianjin No. 2 Intermediate People's Court, requesting that Montresor and Zhengyuan be ordered to stop their acts of unfair competition, make apologies, eliminate the consequences of their acts and bear the litigation cost, and that Montresor be ordered to pay RMB 3 million in damages to Ferrero.

The Tianjin No. 2 Intermediate People's Court held that:

Well-known commodity products apparently had regional characteristics, and the popularity of a product abroad was not a guarantee of its popularity within the territory of China. Determination as to whether a product was well known and how well it was known should be made depending on the circumstances of the market of the product. The exterior packaging formed by wrapping the ball-like chocolate in golden foil was not peculiar to the Ferrero Rocher chocolate. This packaging was common and should not be protected. However, the decoration of the Ferrero Rocher chocolate, which had been used by Ferrero before the product entered the Chinese market in 1988, had distinctive features for identifying and beautifying the product and distinguishing the product's origin, and therefore constituted a peculiar decoration. The chocolate products of the plaintiff and defendant were both well-known products in China. Thus, the points of time at which the two products became famous and their degree of popularity should be seen as the factors in determining whether ordinary consumers could mistake the defendant's product for the plaintiff's product. Ferrero's Ferrero Rocher chocolate became famous later than Montresor's Tresor Dore chocolate. In addition, the Tresor Dore chocolate apparently had a higher reputation than the Ferrero Rocher chocolate. The consumers would not mistake Montresor's Tresor Dore chocolate for Ferrero's Ferrero Rocher chocolate. Therefore, although these two products resembled in decoration, this was not sufficient to cause confusion among the consumers. In view of the above, the court made a decision of first instance to dismiss Ferrero's claims against Montresor and Zhengyuan on Feb. 7, 2005

Not satisfied with the judgment of first instance, Ferrero lodged an appeal to the High People's Court of Tianjin. The high court held that the status of popularity of a product should be determined based on its overall popularity in particular markets both at home and abroad, and should not be construed as being directed only to famous products within the territory of China. The packaging and decoration of the Ferrero Rocher chocolate were designed as a whole to convey a particular meaning in a particular form of packaging and decoration. This product had been sold for a long time on the Chinese market and was known to the relevant public. Therefore, it should be determined as a well-known product. Montresor's Tresor Dore Chocolate had essentially the same packaging and decoration as the Ferrero Rocher chocolate, and Montresor was unable to prove that it had independently designed the packaging and decoration on its own or had used them before Ferrero. Therefore, Montresor was found to have used the peculiar packaging and decoration of the Ferrero Rocher chocolate without authorization. According to the principle of honesty and good faith and the established business ethics, a famous product should be an outcome of honest business activities. To dismiss Ferrero's claims on the ground that Montresor's Tresor Dore Chocolate currently had a higher reputation than the Ferrero Rocher chocolate would, in fact, result in maintenance of unfair competition. The trial of this case should be based upon the spirit and principles in China's anti-unfair competition law and the relevant provisions in the international treaties to safeguard good faith and fair competition in

business activities. The judgment of first instance applied the law inappropriately and reached an unfair conclusion. Ferrero's grounds of appeal were largely tenable and should be supported. On Jan. 9, 2006, the high court issued a judgment of second instance, ruling that: (1) The judgment of first instance be reversed; (2) Montresor desist from using the infringing packaging and decoration of the Tresor Dore series of chocolates immediately; (3) Montresor pay RMB 700,000 in damages to Ferrero; (4) Zhengyuan immediately desist from selling the Tresor Dore series of chocolates that used the infringing packaging and decoration; (5) The other claims of Ferrero be dismissed.

Montresor was not satisfied with the judgment of second instance and lodged an appeal for review to the Supreme People's Court. The supreme court held that, although the statement that "the status of popularity of a product should be determined based on its overall popularity in particular markets both at home and abroad, and should not be construed as being directed only to famous products within the territory of China" in the judgment of second instance was inappropriate, the conclusion that the Ferrero Rocher chocolate had a relatively high reputation in the relevant markets within the territory of China, made by the higher court, was correct. The packaging and decoration of the Ferrero Rocher chocolate, which were peculiar by virtue of the arrangement and combination of their elements in respect of word, design, color, shape and size, produced a distinctive overall image. In addition, these packaging and decoration were unrelated to the functionality of the product and had been advertised for a long time and to a great extent so that the relevant public could associate their overall image with the Ferrero Rocher chocolate product. These packaging and decoration could serve to distinguish the origin of the product. Therefore, they should belong to the peculiar packaging and decoration as set forth in Article 5 (2) of the anti-unfair competition law. Furthermore, the packaging and decoration of the Ferrero Rocher chocolate were used earlier, and Montresor's assertion that it had originally designed the packaging and decoration on its own was not supported by sufficient evidence. The conclusion that Montresor had used the peculiar packaging and decoration of the Ferrero Rocher chocolate without authorization in the judgment of second instance was correct. The packaging and decoration of the Montresor's chocolate product were visually extremely similar to the peculiar packaging and decoration of the Ferrero Rocher chocolate. Even if these two kinds of products differed in price, quality, taste, level of consumer, name of manufacturer, and trademark, the relevant public would still be misled into thinking that the Tresor Dore Chocolate was somehow related to the Ferrero Rocher chocolate economically. Therefore, the appellant's assertion that the similar packaging and decoration would not cause confusion and mistake in the consumers could not stand.

Because Ferrero failed to provide evidence to show its loss or Montresor's profit resulting from the unfair competition, the people's court may, when computing the damages, refer to the

provision on the statutory compensation in the Trademark Law, i.e., “the people’s court shall determine a compensation of 500,000 Yuan or below according to the circumstances of the infringing acts”. Therefore, the ruling of the court of second instance that Montresor shall pay 700,000 Yuan in damages to Ferrero was not supported by the law and should be corrected. Taking into full consideration the factors such as the degree of reputation of the Ferrero Rocher chocolate and the duration and extent of Montresor’s acts of unfair competition, the supreme court reasonably determined that Montresor shall pay damages of 500,000 Yuan to Ferrero.

In addition, what Ferrero sought to protect was peculiar packaging and decoration of a famous product. There were already definite provisions on the protection of such packaging and decoration in Article 5 (2) of China’s anti-unfair competition law, and these provisions were not in conflict with the relevant provisions in the Paris Convention for the Protection of Industrial Property. Therefore, there was no need to cite the relevant provisions of the Convention in the judgment of second instance.

In view of the above, the Supreme People’s Court decided as follows: (1) Items 1 and 5 of the (2005) Jin-Gao-Min-San-Zhong-Zi No. 36 Civil Judgment of the Higher People’s Court of Tianjin (“No. 36 Judgment) be upheld; (2) Item 2 of No. 36 Judgment shall be changed as follows: “Montresor immediately cease the unfair competition act of using, on the Tresor Dore series of chocolate products, the packaging and decoration similar to the peculiar packaging and decoration of the Ferrero Rocher series of chocolate products; (3) Item 3 of No. 36 Judgment shall be changed as follows: “Montresor pay 500,000 Yuan in damages to Ferrero within 15 days after service of the judgment; (4) Item 4 of No. 36 Judgment shall be changed as follows: “Zhengyuan shall cease selling the Tresor Dore series of chocolate products immediately”.