

Yunnan Baiyao Group Co Ltd v Tong Jum Chew Pte Ltd & Another
[2002] SGHC 246

Case Number : Suit No 163 of 2002
Decision Date : 21 October 2002
Tribunal/Court : High Court
Coram : Choo Han Teck JC
Counsel Name(s) : Margaret Neo Kee Heng and Petula Wong I-Lin (Hoh & Partners) for the plaintiffs; Tan Tee Jim SC (instructed counsel) and David Khong (Wendy Wong & Partners) for the defendants

Parties : —

Tort – Passing off – Goodwill – Whether goodwill in common words – How acquired

Tort – Passing off – Quality of goods

Tort – Passing off – Requirements to establish action in passing off

Tort – Passing off – Whether parallel imports amount to passing off

Judgment

GROUND OF DECISION

Cur Adv

Vult

1. The plaintiffs are a public company in China and whose government has a 31.5% shareholding in it. In 1995 the plaintiffs were given the licence to be the sole manufacturers of a product, known as Yunnan Paiyao, for a period of 20 years. This product is a herbal drug claimed by its manufacturers and purveyors to have been discovered over 100 years ago in China, and is reputed for its homeostatic qualities. It is used for the arrest of bleeding and the healing of wounds. The plaintiffs sued the defendants in this action for passing off the Camellia brand of Yunnan Paiyao ("Camellia Yunnan Paiyao") as a product of the plaintiffs. The first defendants are a Singapore company that imported Camellia Yunnan Paiyao into Singapore. The second defendants are a partnership firm that sells traditional Chinese medicine. One of the three partners of this firm, namely, Mr. Tong Yen Tien, is also a director and shareholder of the first defendants. The Camellia Yunnan Paiyao is distinctive by its yellow and red packaging as well as the trademark Camellia flower. The plaintiffs acknowledge that this trademark belongs to a Chinese government-owned company called Yunnan Medicines & Health Products Import and Export Corporation ("YIE"). Camellia Yunnan Paiyao has been sold in Singapore through various agents (other than the plaintiffs) for over 30 years in the yellow and red packaging.

2. It is not disputed that by an agreement of 18 May 2000 the first defendants were appointed the sole agents for YIE in Singapore for the distribution and sale of YIE products including the Camellia Yunnan Paiyao. It is not disputed that at all material times YIE purchased its supply of Yunnan Paiyao from the plaintiffs under the terms of a written agreement. The plaintiffs conceded that the Yunnan Piyao made by them is marketed under two brand names. One was the Camellia Yunnan Paiyo, the other was Yunfeng Yunnan Baiyao. It is an important (undisputed) fact that the packaging of the Camellia brand was done by the plaintiffs with materials (the packaging) supplied to them by YIE. It is equally important to note at the outset that this was not a case of a sole agent trying to steal his principal's mark. The incontrovertible fact was that the get-up of the Camellia brand Yunnan Paiyao belongs to YIE. Counsel for the plaintiffs submitted that the words Yunnan Paiyao in English as well as in Chinese constituted a mark which belonged to the plaintiffs. I shall revert to this argument shortly.

3. The evidence was not very precise or comprehensive, but sufficient for me to find that the Yunnan Provincial government appears to have an interest in this product. Hence, when a rift appeared between the plaintiffs and YIE sometime between 1995 and 1996, the state intervened and helped to mediate a settlement. It is not clear whether a legally binding settlement had been reached under Chinese law, but there is an unchallenged report documenting the assertion by the provincial government that the Yunnan Paiyao is a national treasure and ought to be properly preserved and marketed. It suggested the formalisation of what was already the practice in which Yunfeng Yunnan Baiyao is sold domestically, while the Camellia Yunnan Paiyao is sold internationally. It is noted that the product itself is essentially the same; only the name and packaging differ. This much was conceded by the plaintiffs, at least until April 1998.

4. The significance of April 1998 is that at that time the plaintiffs asserted that YIE were in breach of contract and had not made payments due to them. YIE, in turn, asserted that the plaintiffs were in breach in not delivering supplies in the manner and quantity required. The dispute between them is immaterial to this action save that consequent upon the dispute, the plaintiffs (unilaterally, according to YIE) terminated their contract with YIE in April 1998. Thereafter, on 25 December 2001, the plaintiffs appointed a Singapore company called Teck Hong Hung Pte Ltd (a company incorporated in 1996) as its sole agents in the distribution and sale of Yunfeng Yunnan Baiyao (in Singapore). Teck Hong Hung's managing director is one Mr. Chan Yan Chye. He testified that he was introduced to the plaintiffs in July 2000 and he expressed an interest in distributing the plaintiffs' product for them in Singapore. It will be noted that May - July 2000 was also the time the first defendants were in touch with YIE to become their sole agents in Singapore. Reverting to Mr. Chan, he testified that he conducted a market survey and found that the Camellia brand was by far better known than the plaintiffs' Yunfeng brand that was sold in a red, green and white packaging. Mr. Chan reported this survey to the plaintiffs, and also submitted some samples of Yin's Camellia Yunnan Paiyao, as well as some samples of the plaintiffs' Yunfeng Yunnan Baiyao, to the Health Sciences Authority ("HSA") for testing. The HSA found an excessive concentration of mercury in the Camellia Yunnan Paiyao, but only a trace element in Yunfeng Yunnan Baiyao. Consequently, the defendants were ordered to withdraw the Camellia brand from the market. It transpired at trial before me, that in both brands - the Yunfeng as well as the Camellia brand - there is a tiny red pill in each packet of Yunnan Paiyao capsule and also one in each bottle of the powdered form. This one tiny pill was meant for instances of severe pain. It is this pill that contains mercury. It is the same for the Yunfeng pill as well as the Camellia pill. The capsules and powder of both brands do not contain mercury. However, Mr. Chan sent only the red pill of the Camellia brand but, at the same time, sent only the plaintiffs' capsule (without the red pill) to HSA for testing. This episode was relevant in that the plaintiffs had initially sought to show that the defendants' product was a counterfeit because of the mercury content in the Camellia Yunnan Paiyao, and none in the Yunfeng Yunnan Baiyao. After Mr. Chan was cross-examined, this point no longer featured in the plaintiffs' case.

5. Some trap purchases were made of the Camellia brand Yunnan Paiyao on behalf of the plaintiffs, and subsequently, the defendants' stocks were seized and the plaintiffs commenced this action. The supply in question concerned four shipments of Camellia Yunnan Paiyao ordered by the first defendants and delivered by YIE through Cheerwise Industrial Ltd ("Cheerwise"), their joint-venture partners in Hong Kong. The evidence of Mr. Tong and Miss Xue Xiaoli, the export manager of YIE, was that the supply of Camellia Yunnan Paiyao to the first defendants came from stocks ordered by YIE from the plaintiffs prior to April 1998, with the exception of the third shipment in which YIE bought some Yunfeng brand directly from the Yunan Paiyao Group Corporation which they say, is the plaintiffs' parent company. YIE then sent that shipment to Cheerwise who re-packaged them into the Camellia packaging, complete with Camellia brand literature before re-exporting them to the first defendants in Singapore. At this point, it would be convenient to deal with one evidential issue. Miss

Neo, counsel for the plaintiffs, made a valiant attempt to establish a break in the paper trail leading from the orders from the first defendants to the delivery of the supplies under the four shipments.

6. One of her main grounds was that the numbers did not tally. The plaintiffs had a report that referred to the quantity supplied on one shipment as "4g x 6 bottles" and the total sum of the order would, if based on that scale, be 30,000 bottles - not the 60,000 bottles that the defendants said they ordered. Miss Xue carefully took me through the relevant invoices that clearly dispelled any notion that less than 60,000 were ordered. Miss Xue further explained that the "4g x 6 bottles" was the description on the plaintiffs' standard, printed form and was in fact referring to their product for the domestic market. The invoices for the export market indicates "4g x 10 bottles". I find this explanation perfectly acceptable, not only because there was no significant countervailing argument against it, but also that I find Miss Xue to be a very reliable witness who had first-hand knowledge of the dealings between the plaintiffs and YIE, as well as between YIE and Cheerwise and the first defendants. Her evidence on this point was consistent with the purchase documents as well as with the evidence of Mr. Tong Yen Tien (who purchased them from YIE for the first defendants). He is also a witness who I judge to be reliable.

7. The amended statement of claim pleaded a single cause of action, namely the tort of passing off. The particulars of the wrong are pleaded in 10 of the Statement of Claim to the following. First, that the defendants' product contained the description that the product was manufactured by the plaintiffs, and the packaging on the defendants' product also bear the words "Yunnan Paiyao" in English as well as in Chinese characters. The only difference being that the plaintiffs' spelling of "Baiyao" was changed to "Paiyao". Secondly, the defendants advertised the claim that they were "the sole agents in Singapore of the products of the plaintiffs, that the product was founded in 1914, and that the products were from Yunnan, China". This point was not pursued at trial. Thirdly, the defendants sold products manufactured by the plaintiffs with an express representation that the product expiry date was 2004 when the expiry dates were 1999 and 2001 for the capsule and powder forms respectively.

8. What is the tort of passing off? It is the civil wrong of attempting to mislead the public in thinking that the defendant's product was in fact a product of the plaintiff. But by itself, this is of no advantage unless the plaintiff's product enjoys a goodwill that the defendants may benefit from the passing off. What is the goodwill claimed by the plaintiffs in the present case? They clearly do not, and indeed could not, claim goodwill in the Camellia trademark or the YIE packaging. The Camellia brand Yunnan Paiyao in its well-known yellow and red packaging had been sold in Singapore for over 30 years; whereas, there was only the merest hint that the Yunfeng brand Yunnan Paiyao in its red, green and white packaging was sold in Singapore. In any event, it was not disputed that, if at all, the Yunfeng brand was sold in Singapore only after 1997. The present sole distributor for the plaintiffs, Teck Hong Hung Pte Ltd, only purchased one shipment in 2001 but that had, on Mr. Chan's evidence, been stored in his company's warehouse ever since, waiting to be exported. The previous sole distributor was Science Art Co Pte Ltd but they were not called, and there was no evidence of any retail sale. Counsel for the plaintiffs, Miss Neo, alluded to a statement made by Mr. Tong that after 1997 there were two brands being marketed in Singapore, namely the Yunfeng brand and the Camellia brand. In the context and circumstances of the case (Mr. Tong was not cross-examined on this point), I am of the view that Mr. Tong was making a broad statement to express the undisputed fact that the plaintiffs were intending to sell their Yunfeng brand in Singapore after 1997.

9. The incontrovertible evidence was that the Camellia brand was the dominant and pervasive brand in Singapore. *Hirsch v Jonas* (1876) 3 Ch 584 relied upon by Miss Neo, is distinguishable. It was almost an inverse sort of situation; but more importantly, it was an application for an interlocutory injunction which Jessel M.R. felt he was unable to grant because he could see no reason to stop

someone from selling cigars as those manufactured by him when they were in fact manufactured by him. Hence, the only claim to goodwill in the present case must be (I choose these words carefully because the plaintiffs' claim as pleaded and presented was somewhat amorphous) in respect of the words "Yunnan Paiyao" in both English and Chinese. Mr. Tan SC, counsel for the defendants submitted that "Yunnan Paiyao" are descriptive words to which no one party may claim any goodwill through their use of them. It is not disputed that "Yunnan Paiyao" - whether the Paiyao is spelt with a "P" or a "B" - means "white medicine from Yunnan". It is thus no different from descriptive terms such as "Life Nourishing Wine", in *Yomeishu Seizo Co Ltd v Sinma Medical Products (S) Pte Ltd* [1991] SLR 499, for example. The law does sometimes recognise, as evident in Lord Herschell's judgment in *Reddaway v Banham* [1896] 13 RPC 218, that a plaintiff may acquire goodwill in words taken from the common stock of language, but it is not difficult to understand that in such cases the law also requires the plaintiff to prove in the most satisfactory manner that by the defendant's use of those words, by themselves without explanation, will deceive the consumer in believing that he was getting the plaintiff's goods. There was no basis, therefore, for the plaintiffs to assert that the words Yunnan Paiyao, whether in English or Chinese, whether spelt with a "P" or a "B", belonged to them, or were used by them in Singapore. Moreover, the plaintiffs evidence was that they obtained the rights to manufacture Yunnan Paiyao from a small diverse group of manufacturers in 1996, and that this was obtained by a written agreement. Nothing in that agreement expressed an assignment of any proprietary claim to the words Yunnan Paiyao, or an assignment of any such right to an exclusive use of them.

10. At first glance, the circumstances in the present case appear nebulous, but that is due to the plaintiffs' implicit assertion that the public had associated "Yunnan Paiyao" as the plaintiffs' product. The evidence show that there was no basis for such a notion. There was no evidence to show that the public was likely to have asked for "Yunnan Paiyao" as opposed to "Camellia Yunnan Paiyao", when asking for the product at retail outlets. But even if one assumes that the consumer was more likely to ask simply for "Yunnan Paiyao", it is important to bear in mind the context and circumstances, namely, that the Camellia brand was the predominant brand in Singapore for a long time. Even the managing director of the plaintiffs' sole agent, Mr. Chan, conceded in his affidavit that his market research showed that the Camellia brand was "widespread" in Singapore as compared to the Yunfeng brand - and his market research was conducted in 2001. Hence, I have little difficulty in finding that when the consumer asked for "Yunnan Paiyao" he was more likely to have in mind YIE's brand and not the plaintiffs' Yunfeng brand. Hence, when YIE used the plaintiffs' product labelled with the Camellia get-up, they were selling the product "Camellia Yunnan Paiyao". It cannot in any way be described as passing off their product as that of the plaintiffs' product. One would hardly know what the plaintiffs' product was in that situation save that the YIE packaging acknowledged that the manufacturer was the plaintiff (which was the fact). In those circumstances, the defendants' sale of the Camellia brand flatters more than it harms the plaintiffs. No harm or damage was, in fact, proved in the present case before me. Since *Reckitt & Colman Products Ltd v Borden Inc* [1990] RPC 341, it is now axiomatic to declare that damage is a critical element in an action for passing off. In the absence of damage, the action cannot succeed.

11. If, as I find, that the words "Yunnan Paiyao", whether in English or Chinese, whether spelt with a "P" or a "B", are merely descriptive of the product; and that (by the plaintiffs' concession) the Camellia trademark and packaging belongs to YIE, the only straw upon which the plaintiffs may construct a case of passing off, is to prove that the contents in the Camellia packaging were counterfeit, that is, not the product professed to be manufactured by the plaintiffs. The basis of the passing would have to rest on the statement carried on the YIE product, that the contents were manufactured by the plaintiffs. The burden of proof of counterfeiting lay with the plaintiffs. The evidence before me, however, shows that the contents of all the four shipments sold by YIE to the first defendants were manufactured by the plaintiffs and sold by them to YIE. Even in respect of the

third shipment which concerned only the powder form (when YIE ran out of stock and had to purchase from the Yunnan Pharmaceutical Group Corporation), there were no satisfactory evidence to prove otherwise. Throughout the trial, whenever the plaintiffs' witnesses were challenged to say how they are able to compare their product with those purchased from YIE, they could only respond by saying that the plaintiffs' formula is a secret. But that secret was the only key to proving that the YIE product was fake although Mr. Yang Yun, the chemist in the plaintiffs' employ, testified that by the absence of certain unique fragrance he could tell that the YIE product was not that of the plaintiffs. There was no proper or detailed report as to how and under what conditions the YIE product was tested; nor the type and nature of the compounds that give off the unique fragrance that Mr. Yang talked about. I have, therefore, no sufficient cause to trust his nose. Mr. Yang also mentioned that there was an excessive presence of calcium oxalate crystals in the sample of the defendants' product that he tested. No further information was given, and I do not know what caused the sample to have more calcium oxalate crystals; what the calcium oxalate crystals do to or for the product; nor why that is significant.

12. I shall now come to the product expiry date. Miss Neo submitted that selling a product when it had passed the product expiry date is an indication that the products were counterfeit goods. But the thrust of her case on this point was that expired goods created a misrepresentation of the quality of the product. She argued that when expired goods are sold, the quality of the product is compromised and the public will thus be (she did not present her case on the basis of "had been") misled into thinking that they are purchasing the genuine (unexpired) product of the plaintiffs. Counsel relied on a series of authorities in support of the proposition she advanced, the essence of which is best captured in the a passage from Christopher Wadlow's *Law of Passing Off*, at page 162:

"There is one category of case in which it is essential that the goods offered by the defendant should be of a recognisably different quality to those of the plaintiff. That is where the defendant is dealing in goods which really are those of the plaintiff, but is passing off one quality for another. In theory, all that is necessary is that there should be two distinct categories of goods, but in practice this form of passing off is likely to occur in the form of inferior goods being passed off as the superior."

I think that it must be obvious that this form of passing off must involve a product that is proved to be inferior to the one under comparison. The authorities cited by Miss Neo indicate that that must be so. Hence, in each of them, the product complained of were of a different grade than a superior version made by the same manufacturer, usually for a different market. In *A. G. Spalding & Bros v V.A.W. Gamage* (1915) 32 RPC 273 the defendant was selling an inferior ball, different in quality from the then newly famous "Orb" ball, and passing off the former as the latter. In *Colgate-Palmolive Ltd v Markwell Finance Ltd* (1989) RPC 497, the defendants were selling a much different version of the plaintiff's renown Colgate toothpaste. The inferior version, intended for sale in Brazil, was lacking in fluoride, had a lower quality abrasive constituent, and contained preservative not present in the superior version. All that rendered the product distinctly different from that sold by the plaintiff in the United Kingdom. In *Champagne Heidsieck et Cie v Scotto & Bishop* (1926) 43 RPC 101 the plaintiff succeeded in an action brought to prevent the sale of a wine in the United Kingdom that was intended by its maker to be sold only on the continent. It was the same with *Wilkinson Sword Ltd v Cripps v Lee Ltd* [1982] FSR 16 where it was held that an action in passing off would lie where a defendant imports razor blades made by the same manufacturer if the imported blade is clearly of an inferior quality meant for another market. These cases maintain the proposition that one cannot pass off an inferior quality product as the superior one. But the difference in quality must be proved. The

printing of expiry dates is only an indicia that the product has passed its shelf life, resulting in a deterioration of the product's quality. Passing off in such cases is not about the diligence, or accuracy, in the printing of the expiry date, but of actual differences in quality. The difference is a fact that must be proved.

13. The burden was on the plaintiff to first prove that the goods sold by the defendants had actually passed the expiry date. The evidence before me was that at the material time, the Chinese authorities did not require expiry dates to be shown on the product. The evidence that I accept is that the requirement came into force, only after the event, in December 2001. The expiry dates were printed in order to satisfy the Singapore authorities' requirement. Miss Xue, whose evidence I accept, testified that she that there was no requirement in China to disclose the expiry date of the product. The expiry date was not an issue there. However, since Singapore importers required a date to be printed, and through experience she was able to say that the Yunnan Paiyao products could last between 8 to 10 years, she decided on a slightly more conservative figure of 6 years and used that as the expiry date. The other point that Miss Neo made was that if it was true that the stocks in question were purchased by YIE in 1997, then the expiry date would have been 4 years at the latest and that would have lapsed in 2001, and not 2004 as printed by YIE. She relied on the document PB6 to PB9 in support. I am, however, not satisfied with this document. Although it was purportedly issued by the Yunnan State Drug Administration Bureau it was adduced by the plaintiffs' witness one Zeng Tianyu. In any event, Miss Xue explained that the plaintiffs had never told them what the expiry dates were. Hence, I am of the view that even if the expiry date, as determined by the plaintiff, was 2001, YIE would not have known about it. It seems to me reasonably obvious from Miss Xue's evidence, that YIE never thought that the expiry date was an important issue. The plaintiffs never told YIE about it, and they (YIE) printed it only because the importing country's regulations (not China's) required it to be done. Indeed, the plaintiffs' own packaging also did not carry any expiry date at the material time.

14. Secondly, the plaintiffs were obliged to prove that the product sold by YIE to the defendants were of an inferior quality. This they failed to do. No evidence was presented to persuade me that the Camellia Yunnan Paiyao was in any way inferior to that marketed under Yunfeng Yunnan Baiyao. In the same way that evidence is required to prove that the YIE product was counterfeit, the plaintiffs were obliged, in my opinion, to prove the actual differences in quality. I accept that in many cases the maker would be best placed to tell his own product from a counterfeit. Sometimes, as in the case of jeans, for example, it is by the way they sew the seams, or from the shape and thickness of its buttons; but in cases such as the present where scientific evidence is required, it is almost impossible to make a positive finding in the absence of reliable scientific evidence. If laboratory tests are required, as would most certainly be the case here, the samples must be properly identified, the criteria and procedure for the tests to be clearly set out, and the findings properly reported. The testing centre and its facilities ought to be adduced as part of the evidence. The methodology and procedure for scientific tests are crucial. It will be presumptuous to regard a witness' (the plaintiffs' Mr. Yang Yun) nose as an accurate scientific equipment. It was also not to the plaintiffs' advantage in any way when they spurned the defendants' offer to have the products tested by independent laboratories in China. Protecting a secret formula is an inadequate excuse. It was only in the course of her final submission that Miss Neo ventured to say that the secret formula may only be disclosed with state approval; but nothing was done to indicate whether the plaintiffs supported the idea of an independent test, and to that end, were prepared to give their consent so that the state may view the application for approval more favourably. It was a case of too little, too late. I should add that I am not laying any rule to the effect that scientific evidence can only be adduced from independent laboratories. Each case must be considered on its own facts. In this case, even the plaintiffs' own laboratory proved to be of little assistance not only for lack of a proper report of the procedure and methodology used, but also by the plaintiffs' insistence on maintaining the secrecy of its formula.

15. Furthermore, the evidence appears to be to the contrary. The product whether branded as Camellia or Yunfeng was the same although the brands were to be marketed in different countries. As it transpired, the plaintiffs themselves say that their Yungfeng brand was being marketed in Singapore, or at least, intended to be sold in Singapore. No evidence was led to show that the Yunfeng brand was of a superior quality to the Camellia brand. The plaintiffs' claim that the passing off consist of the passing off of counterfeit or, alternatively, an inferior product for the superior one, failed for want of proof.

16. In respect of the plaintiffs' claim that the first defendants' third shipment contained counterfeit goods because of YIE and Cheerwise's admission that they had changed the labels of the plaintiffs' product in powder form. The central issue was, whether the product was manufactured by Plaintiff? Can plaintiff reasonably infer that if packaging was altered the product is a counterfeit? In some instances it is an indicia of wrongdoing. In this case, there was a sound explanation on the facts as well as a reasonable rebuttal on the law and practice. I find no evidence that the contents were changed. On this point, I find the evidence of Mr. Cheng from Cheerwise and Miss Xue from YIE to be reasonable and reliable, and I accept their evidence entirely. There was no evidence to contradict them as this was a matter entirely within their knowledge and not that of the plaintiffs. I am unable to accept the conclusions to the contrary that Miss Neo wanted me to draw. Those arguments were based on assumptions concerning the expiry dates and batch numbers (which, Miss Xue explained, were provided by YIE to the plaintiffs anyway). These assumptions pale in comparison to the direct, forceful and clear evidence of Mr. Cheng and Miss Xue, and to some extent, the supporting evidence of Miss Dan.

17. Finally, if this case can properly be categorised as a case of parallel importation - although I do not think that it can be because there is no evidence that the plaintiffs were selling their product in Singapore, and in view of my finding that the Camellia brand Yunnan Paiyao was neither their mark or product - the law affords no relief to the plaintiffs. So far as parallel imports are concerned, if a product imported by a parallel trader is indeed the plaintiff's product, the importation and sale does not amount to a passing off. *Sin Heak Hin Pte Ltd v Yuasa Battery Singapore Pte Ltd* [1995] 3 SLR 590, 610. Dealt with this point directly although that case was essentially a libel action. The issue of passing off was an important part of the case, and was dealt with comprehensively by Judith Prakash J. I need not refer to the case at length, save to say that the essence of that part of the judgment is that a Yuasa battery is a Yuasa battery, and no question of passing off can arise if a trader imports the genuine product in competition with the maker's own stock in Singapore.

18. For the reasons above, the plaintiffs' claim is dismissed. I shall hear parties on the question of costs at a later date.

Sgd:

Choo Han Teck

Judicial Commissioner

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