

Study on the Determination of the Nature of Trademark Dilution

--Taking the "Lao Gan Ma Case" as an Example

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Abstract: China's current legislation does not make clear provisions for the dilution of well-known trademarks, resulting in difficulties in identifying dilution cases in practice. One such notable instance is the "Lao Gan Ma" dispute, which serves as a telling example of this legal gray area. Consequently, it becomes imperative to delve into typical cases like the "Lao Gan Ma Case" to gain clarity on the disputed actions' legal nature, and then demonstrate how the dilution theory can be applied in the determination of specific cases. Utilizing the case study method, this paper aims to examine a particular case of trademark dilution in detail. The initial focus is on clarifying the concept of trademark dilution and its constituent elements of determination. This theoretical foundation is essential for accurately analyzing the nature of the complained-of infringing act. The significance of this paper is to theoretically solve the problem of determining the nature of dilution under the system of China's Trademark Law, to provide a reference for the determination of the same type of cases in the future, and hopefully to provide ideas for the future legislation on trademark dilution in China.

Keywords: Trademark dilution, Well-known trademarks, Anti-dilution protection, Trademark infringement

1. Introduction

China introduced the theory of trademark dilution in 2013 by way of judicial interpretation of Article 13(3) of the Trademark Law [1], but the introduction of the theory of dilution by way of interpreting the term "misleading the public" failed to clearly show the distinction between trademark dilution and trademark confusion, which made it extremely difficult to recognize dilution in judicial application.

"The Trademark Infringement Dispute between Guiyang Lao Gan Ma Flavored Food Co., Ltd. and Guizhou Yonghong Food Co., Ltd. (after this referred to as the "Lao Gan Ma Case") is a typical trademark dilution infringement case in recent years, and the judgment of this case exposes the problems of unclear explanation of the principles of the theory of dilution and mixing of the theory of confusion and the theory of dilution, etc., when the court determines dilution behaviors under the current system of Trademark Law of China.

This paper mainly adopts the case study method, taking the "Lao Gan Ma Case" as the research object, starting from the controversial focus of the case, combining with the theoretical analysis, researching the problem of well-known trademark dilution, obtaining inspiration from it and summarizing the treatment method of similar cases. It also adopts both the literature review and the comparative research method to learn from Chinese scholars and the trademark dilution system of the United States and the European Union.

The significance of this paper is to clarify the applicable theory of trademark dilution infringement, and then theoretically solve the problem of identifying the nature of dilution under the system of China's Trademark Law, to provide a reference for the identification of the same type of cases in the future, and hopefully to provide ideas for China's further trademark dilution legislation, and to promote the improvement and development of the legislative protection of China's well-known trademarks.

2. Basic Overview of the Theory of Dilution

2.1. Overview of Trademark Dilution

Traditional trademark law protects the exclusive right to use a registered trademark by applying the principle of prohibition of confusion. As Prof. McCarthy said, the likelihood of confusion is the cornerstone of trademark infringement. However, when the traditional prohibition of confusion theory fails to protect the exclusive right to use registered well-known trademarks, the anti-dilution theory of registered well-known trademark protection comes into being [2].

2.1.1. The concept of trademark dilution

A trademark is an identification of a good or service, which is mainly used to distinguish that good from others, and is the basis for consumers to recognize a particular good. Trademark dilution, when interpreted literally, refers to the process of blurring the distinctive identification of a trademark. This blurring diminishes the trademark's ability to be recognized and distinguished from other goods or services, effectively watering down its unique identity.

In *The Rational of Trademark Protection*, Frank Schechter suggests that dilution occurs when a trademark is used in a non-competitive field, resulting in a diminution of the trademark's distinctiveness, thereby infringing on the rights of the trademark owner [3]. The U.S. Federal Trademark Anti-Dilution Act also points out that, regardless of whether there is a competitive relationship between the perpetrator and the trademark owner, as long as the perpetrator's usage behavior damages the commercial reputation of the well-known trademark, weakening its distinctiveness and identifiability, it constitutes trademark dilution. According to Chinese scholars such as Feng Xiaoqing and Yang Lihua, dilution is "an act in which an unauthorized user uses a mark identical or similar to a well-known trademark on non-identical or non-similar goods, and takes advantage of the well-known trademark's commercial reputation to promote its goods, thus diluting the distinctiveness of the well-known trademark, and depreciating its intrinsic value and identifying function" [4].

It can be seen that the basic connotation is the same, although the legislation and theories differ in their interpretation of the concept. Trademark dilution means the use of the same or similar signs as the well-known trademark on different kinds of goods without the permission of the right holder, to weaken the distinctiveness of the well-known trademark, gradually reduce its recognition ability to indicate the origin of goods, weaken the connection between it and the goods it indicates, and depreciate the value and social reputation of it, thus causing damages to the owner of the trademark.

2.1.2. The object of trademark dilution

From the current theoretical research and national legislation, well-known trademarks constitute the object of trademark dilution.

Compared with general trademarks, well-known trademarks have a higher commercial value, which has not only the basic identification function of trademarks, but also, more importantly, the advertising function. The establishment of a well-known trademark requires the trademark owner to invest a large amount of economic costs, long-term operation and maintenance, and ultimately obtains a high degree of distinctiveness and recognition, so that consumers will directly associate the well-known trademark with the goods it indicates when they see it, which enhances the ability to screen the goods. It can be said that a well-known trademark is a symbol of the high quality of a commodity, as well as a guarantee that an enterprise is worthy of public trust, and is an important property of the enterprise. Therefore, once diluted, the distinctiveness of a well-known trademark will be weakened, the business reputation will be tarnished, its great commercial value will be reduced, and the efforts invested by the trademark owner will be wasted. This is why anti-dilution protection is said to be an additional protection for well-known trademarks [5]. Although non-well-known trademarks also have a certain degree of distinctiveness, their influence is relatively small, and they contain limited commercial value, so the traditional theory of anti-confusion is already sufficient to protect them. If the anti-dilution protection is also carried out at the same time, it will not only consume excess legislative costs but also impose more obligations on other social subjects. Therefore, at present, the legislation of most countries mainly only provides anti-dilution protection for well-known trademarks. The relevant laws in China only protect well-known trademarks that have been registered, the main purpose of which is to encourage trademark registration to facilitate management.

2.2. The determination of trademark dilution

As with other legal concepts, to determine the act of trademark dilution, it is first necessary to determine its constituent elements in law. On the whole, it is currently believed that the following four aspects need to be discussed when determining trademark dilution: first, the perpetrator has committed the act of dilution; second, the target of infringement is a well-known trademark; third, the perpetrator is subjectively at fault; and fourth, there is the possibility of diluting the well-known trademark. In academic circles and practice, the opinions are more unanimous that the object of trademark dilution is well-known trademarks, which has been explained above, so it will not be repeated. The following is a major analysis of the types of dilution.

In the theoretical circles, the discussion on the types of trademark dilution has always existed, and no consensus has been reached. In terms of legislation, countries have also made different provisions according to their understanding as well as their national conditions. The United States provided for two types of dilution in the Lanham Act: blurring and tarnishment, and later introduced degeneration in the Restatement of the Third Unfair Competition Law. Article 9 of the EU's EC Trademark Regulation and Directive No. 1 classify dilution into three types: improper exploitation of a prior mark (i.e., misuse), improper impairment of the distinctiveness of a prior mark (i.e., blurring), and improper impairment of the reputation of a prior mark (i.e., tarnishment) [6]. The current mainstream view classifies trademark dilution behavior into blurring, tarnishment, and degeneration.

Blurring refers to the act of privately using a well-known trademark or a mark similar to it on goods or services not of the same kind without the permission of the owner of the well-known trademark, resulting in a weakening of the distinctiveness of the well-known trademark, and diluting the strong connection between the well-known trademark and the goods to which it refers. Blurring behavior is mainly aimed at the distinctiveness of a trademark, the core embodiment of which is to make the well-known trademark no longer have the obvious characteristics of distinguishing goods,

and consumers can no longer directly locate the goods represented by it, which destroys the correlation between the well-known trademark and the specific goods, and thus dilutes it. There is no more classic passage on blurring than the statement by Tom Smith, Chairman of the American Bar Association's Section of Intellectual Property, "If the courts allow or let go of 'Rolls-Royce' restaurants, 'Rolls-Royce' cafeterias, 'Rolls-Royce' pants, and 'Rolls-Royce' candy, then in less than a decade, the owner of the 'Rolls-Royce' trademark will no longer own the world-famous mark. " [7]. Blurring is one of the most typical types of trademark dilution.

Tarnishment refers to the act of slandering and defacing a well-known trademark by using it privately on goods or services not of the same category which are of inferior quality, unclean, or indecent without permission. The core of tarnishment is to degrade the prestige and social image of a well-known trademark in the public's mind, destroy its goodwill and reputation, and then damage its original influence and appeal to consumers by making the public's cognition of the goods indicated by the well-known trademark deviate or produce bad associations. Specifically, it includes three situations: firstly, the use of trademarks on inferior goods or services, such as the use of well-known trademarks for pianos on baskets and washbasins; secondly, the use of trademarks on unhealthy or immoral goods or services, the former, such as the use of well-known trademarks for perfumes and food products on hygiene products, and the latter, such as the use of relevant well-known trademarks on drugs and obscene materials; and, thirdly, the derogative use of well-known trademarks in advertisements and publicity, such as the negative modification of well-known trademarks and then use them in advertisements. Typical examples of tarnishment are the 1972 "Coca-Cola" case and the 2003 United States Supreme Court case *Moseley v. V Secret Catalogue, Inc.*, 123 S.Ct. 1115.

Degeneration refers to the improper use of a well-known trademark for non-similar goods or services, such as using it directly as a generic name in dictionaries and advertisements, which indirectly causes the trademark to lose its distinctiveness and eventually degenerate into a generic name for the relevant goods [8]. In the U.S. case of *Panavision, Int, 1 v. Toeppen*, the court described it as "a complete loss of distinguishing power of a well-known mark in one respect or another" and "a form of dilution in addition to blurring and tarnishment". The result of degeneration is the complete disappearance of distinctiveness and recognition, and the trademark enters the public domain to become the common name of a certain class of goods, and loses all of its commercial value, at which time the well-known trademark not only loses the function of indicating the source of the goods and being used as an advertisement, but also faces the risk of the trademark being revoked. There are many examples of trademark degeneration, such as aspirin, Jeep, and Freon. Degeneration is an extreme case of blurring and has the most serious result among dilution types, signaling the end of a trademark's life.

3. The Basic Facts of the "Lao Gan Ma case" and the outcome of the court's judgment

3.1. The Basic Facts of the "Lao Gan Ma" Case

The plaintiff, Guiyang Lao Gan Ma Company, owns the registered trademark "Lao Gan Ma," which is the subject of the current discussion. This trademark consists exclusively of three Chinese characters: "Lao," "Gan," and "Ma." Its visual representation is entirely in Chinese script, lacking any special designs, shapes, or symbols. The trademark has been recognized as a well-known trademark on several occasions.

The defendant Yonghong Company owns the registered trademark "Niutou", which takes the form of a picture resembling a cow's head, with three Chinese characters "Niu Tou Pai" embedded in the picture. The Defendant mainly produces beef products such as beef jerky, beef sticks, etc., which are available in various flavors, such as "Original Flavor", "Spicy Flavor", as well as "Lao Gan Ma Flavor", which is produced by using tempeh procured from the plaintiff.

On February 1, 2016, Guiyang Lao Gan Ma Company discovered that Guizhou Yonghong Company was selling commodities labeled "Niu Tou Pai" and image on the upper part of the front side of the commodity's package, the word "Lao Gan Ma" was also marked in the middle of the package in a prominent position, and the name of the commodity "Lao Gan Ma Flavored Beef Sticks" was marked on the reverse side. Lao Gan Ma Company sued the defendant for dilution infringement of its well-known trademark, and the defendant used the defense that its conduct was a legitimate use of the well-known trademark.

3.2. Opinions and judgments of the Courts

The Beijing Intellectual Property Court, acting as the Court of First Instance, determined that the alleged infringing act constituted a dilution of the well-known trademark. Such dilution would result in the trademark's genericization, reducing its distinctiveness and recognition, and ultimately diminishing its value. "Lao Gan Ma" is the well-known trademark of Guiyang Lao Gan Ma Company, not a common expression of taste, and the defendant could not use it descriptively on the product packaging, which could not be evaluated as fair use. Based on the above reasons, the court of first instance finally ruled that the defendant infringed the plaintiff's exclusive right to use the trademark in question, and the plaintiff and the defendant both filed an appeal.

The Court of Second Instance, the Beijing Higher People's Court did not directly use the expression "dilution", but found that the infringing behavior improperly exploited the market reputation of the well-known trademark, which did not belong to the scope of fair use, would weaken the unique correspondence between the well-known trademark and the source of the goods it pointed to, and thus diminished its distinctiveness, which, in essence, was also to find that the infringing behavior was a dilution of the well-known trademark.

In conclusion, although the reasoning of the two courts is slightly different, at least they both agree that the infringement constitutes trademark dilution. It can be seen that the nature of the infringement is the main focus of the "Lao Gan Ma case".

4. Analysis of whether the conduct in this case constitutes trademark dilution

To assess whether the conduct in this case amounts to trademark dilution, a thorough analysis should encompass four key aspects: whether the trademark involved is well-known, the nature of the conduct at issue, the potential for dilution to occur, and whether the defendant, Yonghong Company, had a subjective fault. This comprehensive approach is necessary to establish a clear understanding of the infringement and its impact on the trademark's value and recognition.

Since there is no controversy in this case for the determination that the trademark in question belongs to a well-known trademark, this paper will not repeat the process of the court's determination of the well-knownness of the trademark, here the paper directly recognizes it as a well-known trademark.

The following section will delve into whether each of the three types of dilution applies to the present case. This analysis aims to provide a comprehensive understanding of the infringement's impact on the trademark's value, distinctiveness, and recognition.

4.1. Blurring in this case

The core embodiment of blurring is to weaken the distinctiveness of the well-known trademark and destroy the correlation between the well-known trademark and specific commodities, making it impossible for consumers to locate the commodities that the well-known trademark is supposed to represent in the first place according to it. The result of this type of dilution is often not immediately

visible in the short term, instead exhibiting a subtle and gradual erosion of the trademark's distinctiveness over a prolonged period. Therefore, it is necessary to argue in conjunction with the theory of the possibility of dilution in determining whether conduct constitutes blurring.

In this case, the categories of commodities in which the Lao Gan Ma trademark and Yonghong Company's Niutou trademark are allowed to be used are different. The Defendant Yonghong Company used the trademark of Lao Gan Ma on its beef stick products, which belonged to the 29th category of goods and did not have a competitive relationship with the 30th category of goods, hence its behavior belonged to the situation of using a well-known trademark on different categories of goods in the first place. The conduct in question uses "Lao Gan Ma flavor" as a flavor name on the product label, and in the short term, consumers can still associate it with the chili sauce produced by Guiyang Lao Gan Ma Company; however, after a long period, consumers are very likely to be subliminally influenced, gradually accepting that "Lao Gan Ma flavor" is just the name of a flavor, and when they see it, they will associate it with not only Guiyang Lao Gan Ma Company, but also all the foodstuffs on the market that have been added with Lao Gan Ma Brand seasoning, and at this time, the distinctiveness of the Lao Gan Ma trademark will be lowered, and its only connection with Guiyang Lao Gan Ma Company will be diluted. Therefore, Yonghong Company's conduct in this case constitutes blurring.

4.2. Tarnishment in this case

Tarnishment requires the perpetrator to use the trademark on inferior, unhealthy or immoral goods or services, or to use the well-known trademark with negative modifications for advertising and promotional use, and as a result, to disparage the reputation of the well-known trademark, which has the potential to undermine the well-established influence of the well-known trademark among the public.

In this case, Yonghong Company used the trademark in question in such a way that it only printed it on the labels of its goods, and did not change or modify it in bad faith, thus there was no act of disparagement. The goods in question are beef sticks, which are normal foodstuffs in daily life and are not unhealthy or immoral goods, and the evidence shows that Yonghong Company's trademark had been recognized as a well-known trademark and that there is no record of unqualified foodstuffs produced by it that have failed to pass the test of the food safety and quality standards, which proves that they are also not poor-quality goods. So, combining these points, it is clear that the behavior does not constitute tarnishment.

4.3. Degeneration in this case

Degeneration means that the distinctiveness of a well-known trademark has completely disappeared, and the well-known trademark has degenerated into a generic name for that kind of goods. The determination of degeneration is similar to blurring, which needs to be argued in conjunction with the theory of the possibility of dilution.

In this case, Yonghong Company used "Lao Gan Ma" as an original flavor name to describe the taste of its product alongside traditional flavors such as original flavor and spicy flavor. It is true that, in the short term, such use has not caused the degradation of the trademark Lao Gan Ma, and up to now, the trademark Lao Gan Ma still has a very high degree of recognition throughout the country and even the world, and the first thing that comes to mind when consumers see the trademark Lao Gan Ma is still the flavored tempeh and other seasonings produced by the Guiyang Lao Gan Ma Company, rather than a flavor. However, in the long run, if this practice of using the trademark Lao Gan Ma directly as a flavor designation for all food products is borrowed and imitated by others in the same industry, or is gradually accepted by the general public, and as more and more people in the

society start using the expression "Lao Gan Ma flavor", the trademark will eventually be reduced to a generic name and lose its significance and value as a trademark one day. Therefore, the act in question certainly has the possibility of genericizing the well-known trademark Lao Gan Ma, thus constituting degeneration, and it should be acknowledged that this possibility is relatively high.

The possibility of dilution has already been argued while arguing that it constitutes blurring and degeneration above. If the act in question continues for a long time, the trademark in question will likely lose its distinctiveness and even be reduced to a generic name, so the act in question has the possibility of causing the well-known trademark to dilute. In summary, the conduct involved in this case constitutes trademark dilution.

5. Conclusion

China's Trademark Law has not explicitly introduced the theory of trademark dilution, and there is a lack of uniformity in the provisions of Article 13(3) of the Trademark Law and Article 9(2) of the Judicial Interpretation of Well-Known Trademarks, which results in difficulties in the determination of dilution in practice, which is particularly evident in the Lao Gan Ma case. Against this background, this paper attempts to clarify the nature of the complained-of act in the "Lao Gan Ma Case" through the study of this typical case, to provide ideas for future judicial practice.

In determining the act of trademark dilution, three main aspects should be considered: whether its object is a well-known trademark, whether the act conforms to the type, and whether there is a possibility of dilution. Upon analysis, the act complained of in this case is consistent with the characteristics of blurring and degeneration, and is thus typical of dilution. In this case, the general public can feel the harm of the dilution behavior, so there is a real need to protect the well-known trademark involved.

Given the current state of development of well-known trademarks and the infringements encountered, it is hoped that China's legislation will be more inclined toward the theory of trademark dilution.

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