

Tianfu Group Wins the Lawsuit against Pepsi Cola Regarding Intellectual Property Right Disputes

On December 30, 2010, Chongqing No.5 Municipal Intermediate People's Court issued a decision on the Pepsi Cola – Tianfu Cola case, establishing that Pepsi shall cease to use Tianfu group's technology secrets and know-how (including Tianfu Cola's component, formula and business secrets with respect to the production), return the formula, as well as all the documents with respect to Tianfu group's technology secrets and know-how.

Brief Introduction

In 1994, Tianfu group (a Chinese beverage company with a famous brand “Tianfu Cola”) and Pepsi signed a joint venture agreement (“JV”) and set up Chongqing Pepsi-Tianfu beverage Ltd Co (“Pepsi-Tianfu”) to produce soft drinks under both the Tianfu and Pepsi brands.

According to the JV agreement, Tianfu group contributed the land, factories and production facilities valued at about USD 7,320,000 and held 40% shares of Pepsi-Tianfu. Pepsi contributed USD 10,707,000 in cash and held 60% shares of Pepsi-Tianfu.

However, the intellectual property (the formula and some manufacturing know-how) owned by Tianfu group were not included in the contribution to the JV agreement. Neither Pepsi-Tianfu nor Pepsi ever paid Tianfu group anything for using them during the existence of the JV agreement.

In 2006, Tianfu group sold its 40% shares in Pepsi-Tianfu to Pepsi and quitted from Pepsi-Tianfu because Pepsi-Tianfu had made losses for 12 years after its establishment.

On October 28, 2009, Tianfu group sued Pepsi-Tianfu for illegally occupying its technology secrets and know-how. Tianfu group requested Pepsi-Tianfu to stop using the technology secrets and know-how and return them to Tianfu group. The case was formally accepted and heard by Chongqing No.5 Municipal Intermediate People's Court.

Comments

When Pepsi-Tianfu was set up in 1994, Tianfu group didn't contribute the technology secrets and know-how to Pepsi-Tianfu, which means that the technology secrets and know-how are still owned by Tianfu group. Meanwhile, no agreement relating to the transfer of the technology secrets and know-how from Tianfu group to Pepsi or Pepsi-Tianfu was signed. Therefore, even though Pepsi purchased the shares of Tianfu

group in Pepsi-Tianfu, the technology secrets and know-how were not included in this transaction. Pepsi or Pepsi-Tianfu shall pay the compensation to Tianfu group after 2006.

However, as a general comment we may say:

1. It is advisable to expressly regulate all IP matters in the JV agreement, including some important “positive and negative facts” regarding the contribution and use of each party’s know-how, trade secrets and so forth.
2. In the implementation of a JV it is important to keep record by any means including board resolutions, of the facts related to how the JV is being implemented, and which technologies and IP rights are being used.