Malaysia

Recent developments in licensing laws and their impact on IP owners

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This chapter examines recent developments in licensing laws and their potential impact on businesses and IP rights owners and licensees in the context of trademark law.

One of the challenges faced by a trademark owner in a licensing arrangement is how to ensure that use of its trademark by the licensee does not deceive the trade and the public into thinking that the goods or services originate from a source other than the rights holder. A related issue posed by trademark licensing is a rights holder's loss of control and supervision of the quality of the goods and services provided by the licensee, leading ultimately to the registered trademark being expunged from the Trademarks Register.

Recently, two significant issues relating to licensing in Malaysia were considered by the Court of Appeal and the Federal Court – the final appellate court in Malaysia:

- which party benefits from the goodwill and reputation generated through use of a trademark by a licensee; and
- whether a licensee has an independent right to sue for trademark infringement and passing off.

Licensees are parties granted the right to use a trademark. Licensees generally do not enjoy the same rights and benefits as the licensor; licensees who are not listed as registered users are not entitled to institute an action for trademark infringement. However, it is debatable whether licensees are entitled to share the reputation and/or goodwill generated through use of a trademark. In *Lam Soon (M) Bhd v Forward Supreme Sdn Bhd* ([2001] 6 MLJ 651) a high court held that reputation and goodwill generated from use of a trademark by a licensee will ultimately benefit the licensor.

In the case at hand, the plaintiff applied for an interlocutory injunction to restrain the defendant from using the LAM SOON KNIFE label trademark based on passing off and copyright infringement. The plaintiff's claim in passing off was based on the goodwill that it had generated and the artistic work in relation to the LAM SOON KNIFE label; its copyright claim was based on the ownership of the LAM SOON KNIFE label by Lam Soon Oil and Soap Manufacturing Sdn Bhd, which had been assigned to the plaintiff by virtue of a deed dated February 12 2001. The defendant disputed the plaintiff's claims and contended that it was entitled to use a label containing the same features. Further, the owner of the registered trademark, which comprised an identical knife device, belonged to an individual, Whang Tar Choung – a director and shareholder of the plaintiff. The defendant contended that Choung had managed, owned and/or controlled the plaintiff for a long time and had also licensed the use of the knife device to the plaintiff. Choung was not a party to the action.

The court held that since the plaintiff was merely using the LAM SOON KNIFE label under licence or with Choung's permission, the goodwill generated by the plaintiff in relation to its use accrued for Choung's benefit. The court also held that the plaintiff had not acquired independent goodwill in its business conducted under the knife device trademark. Thus, there was no misrepresentation to the public by virtue of the defendant's use of the trademark and its accompanying backdrop. Similarly, the plaintiff could not establish that its goodwill

had been harmed or misappropriated by the defendant. Therefore, the court concluded that there had been no passing off, and consequently dismissed the plaintiff's application for interlocutory injunction.

The court accepted the following passage in *The Law of Passing Off* (Wadlow, 2nd ed):

> *"If a valid licence of a name or mark is in use then the goodwill generated in respect of the business carried on accrues to the licensor rather than to the licensee. Licence may be express or implied. A licensee acquires no interest in the name or mark and must cease usage on termination of the licence. Provided the licence is a valid one it does not matter that the licensee may be held out as the provider of the goods in question and be solely responsible for their character or quality."*

The court held that a licensee cannot take advantage of its acts conducted during the tenure of the licence to the detriment of the licensor, and the goodwill generated by the plaintiff in its capacity as the licensee accrued for the licensor's benefit.

It is debatable whether *Lam Soon* is an authority for the proposition that a licensee is not entitled to share the reputation and/or goodwill generated through use and promotion of the licensed mark, since the court was required to apply only the test laid down in *American Cyanamid Co v Ethicon Ltd* ([1975] AC 396), in that the court was not required to consider the strength or merit of the parties' respective cases in deciding whether to grant or refuse an interlocutory injunction. The court needed only to be satisfied that there was a serious question to be tried. If the plaintiff satisfied this threshold test, the court would consider whether damages would be an adequate remedy for the plaintiff or the defendant. If there is doubt as to the adequacy of the respective remedies in damages available to either party or to both, the court would consider the question of balance of convenience (sometimes referred to as the risk of injustice to either party).

Shortly after *Lam Soon*, in an unreported decision (*Re: Syarikat Salmi Hj Tamin Sdn Bhd* [2002] 1 LNS 372), another high court held that both the registered owner and the registered users of a trademark shared the goodwill of the business conducted under said trademark. The court based its finding on the lengthy duration of use and widespread promotional activities carried out by the registered users with regards to the TAMIN mark.

In *Syarikat Salmi Hj Tamin Sdn Bhd* the plaintiff manufactured and distributed a variety of foodstuffs, including sauces, vermicelli and syrups, under the trademark TAMIN. The mark was first used by Hj Mohd Tamin bin Wahi in 1951. In 1991 he assigned the mark to his daughter, Sharifah bt Hj Mohd Tamin. She did not conduct business in her personal capacity. Instead, on March 1 1993 she granted a licence to use the TAMIN mark to the plaintiffs, Syarikat Salmi Hj Tamin Sdn Bhd and Syarikat Zamani Haji Tamin Sdn Bhd. The plaintiffs were entered into the Trademarks Register as the registered users of the TAMIN mark under the Trademarks Act 1976.

The defendants manufactured base syrups, flavourings and cordials using the mark TAMIN. The plaintiffs obtained a trade description order on December 15 1993 under Section 16 of the Trade Descriptions Act 1972, which declared that a mark which was confusingly similar to the TAMIN mark applied to any product was a false trade description, and that use by any company or party of a mark which was confusingly similar to the TAMIN mark would constitute use of a false trade description. The high court dismissed the defendants' application to intervene and to set aside the trade description order.

The plaintiffs subsequently filed legal proceedings against the defendants in the high court, claiming that the defendants' use of the mark on its goods amounted to passing off. The plaintiffs sought an injunction to restrain the defendants from using the mark. The defendants counterclaimed against the plaintiffs for slander to title and the defendants' goods by the plaintiffs' act of lodging complaints with the enforcement division of the Ministry of Domestic Trade and Consumer Affairs. The complaint resulted in the defendants' premises being raided and their goods bearing the TAMIN mark seized.

The high court allowed the plaintiff's claim and dismissed the defendants' counterclaim.

The defendants then appealed to the Court of Appeal. One of the grounds of appeal was

that the high court had been wrong in holding that although Ms Tamin was the registered owner of the mark, this fact did not affect the common law rights belonging to the plaintiffs. The high court held that the plaintiffs had common law rights, as they shared the benefit of the reputation and goodwill generated through extensive use of the TAMIN mark with Ms Tamin, the registered owner.

The high court relied on Section 82(2) of the Trademarks Act, which provides that nothing in the act shall be deemed to affect the right of action against any party for passing off goods or services as those of another party or the remedies in respect thereof.

The Court of Appeal agreed with the high court and said that the basis for the plaintiffs' claim against the defendants was in passing off where the property that is protected is the goodwill of the business. The Court of Appeal agreed that the plaintiffs, as registered users, shared the benefit of the reputation and goodwill of the business and therefore had the *locus standi* to sue the defendants. The Court of Appeal further held that it was the plaintiffs which would suffer damages if the rights to the TAMIN mark were infringed by the defendants.

Ms Tamin, the registered owner of the TAMIN mark, was not a party to either set of proceedings. The Court of Appeal upheld the legal proposition laid down by the high court that registered users and licensees are entitled to share the benefit of the reputation and goodwill of the business. Accordingly, licensees may sue in their own name in passing off without joining the trademark owner

The parties did not cite Section 51(1) of the act, which provides that subject to any agreement subsisting between the registered user and the registered owner, the registered user is entitled to call on the registered owner to institute infringement proceedings and, if the registered owner refuses or neglects to do so within two months, the registered user may institute proceedings for infringement in its own name and should join the registered owner as a defendant. There was no indication that Ms Tamin had been called on by the plaintiffs to institute infringement proceedings or that there was an agreement between the parties granting the plaintiffs the right to institute legal proceedings without joining the registered owner. This could be due to the fact that the licensees (the plaintiffs) were not recorded as registered users of the trademark.

In *LB (Lian Bee) Confectionary Sdn Bhd v QAF Ltd* ([2012] 4 MLJ 20) the Federal Court held that the effective date of use of a trademark by a licensee could pre-date the date of registration of the licensee as a registered user. In this case, the licensee was not a party to the proceedings.

The appellant in this case had made and sold a variety of foodstuffs, including cream-filled buns, under the SQUIGGLES mark since November 2007. The respondent is a publicly listed company in Singapore and was conducting business as a manufacturer and seller of bakery and food products. The respondent registered the trademark SQUIGGLES in August 2004 in respect of its cream-filled buns. The respondent also owned a subsidiary company, Gardenia Bakeries (KL) Sdn Bhd, to which it granted the rights to use the respondent's trademarks, including the SQUIGGLES mark, via a licensing agreement. Gardenia commenced use of the mark in 2003 on signing of the licensing agreement, although it applied to be registered as a user only on April 3 2008, and was recorded as a registered user on April 8 2008.

The parties filed two applications before the high court:

- the appellant applied to expunge the respondent's registered trademark SQUIGGLES on the ground that there had been no use in good faith of the mark under Section 46(1)(b) of the act; and
- the respondent applied for a trade description order under Section 16(1) of the Trade Descriptions Act 1972 in respect of use of the mark SQUIGGLES by the appellant.

After hearing the applications together, the high court granted the respondent's application for a trade description order and dismissed the appellant's application to expunge the trademark.

The Federal Court upheld the findings of the high court that use by the respondent's licensee Gardenia was equivalent to use by the respondent even though Gardenia was not registered as a registered user under Section 48(1) of the act before 2008.

The Federal Court held that the act must be applied purposefully and meaningfully and meet commercial realities and objectives. It cannot be right that 'registered user' status, including the recognised period of use, could take effect only on the date of registration of the user. Accordingly, the Federal Court rejected the appellant's contention that the effective date of Gardenia's use of the respondent's trademark as registered user is the date of its registration as user and not a date before that. The Federal Court held that the registration of a registered user commences not from the date of registration as registered user, but from the commencement date of the licence.

The high court, the Court of Appeal and the Federal Court in *LB (Lian Bee) Confectionary Sdn Bhd v QAF Ltd* did not refer to a number of important decisions of the UK courts, notably *BOSTITCH Trademark* ([1963] RPC 183), *Bowden Wire Ltd v Bowden Brake Co Ltd* ((1914) 31 RPC 385), *Oertli (T) AG v EJ Bowman* (London) Ltd ([1959) RPC 1 (HL)) and *Scandecor Development AB v Scandecor Marketing AB* ([2001] UKHL 21 (HL)).

It remains to be seen whether the Court of Appeal or the Federal Court will follow the decision in *LB (Lian Bee)* in future cases on the ground that UK court decisions on IP law are generally regarded as persuasive authorities, especially since the Malaysian Trademarks Act 1976 was modelled on the UK Trademarks Act 1938.

The cases discussed here have strengthened the position and rights of licensees in Malaysia. It is not mandatory to register a licensee as a registered user of the trademark. However, in light of recent developments, it would be prudent for trademark owners which have granted licences to take proactive steps in order to secure their rights by ensuring that their licensees are registered as registered users. It would also be prudent to include a term in the licence agreement that legal proceedings could be instituted only by the licensor or by the licensee with the consent of the licensor, regardless of whether the licensee has been registered as a registered user. This would ensure that the trademark owner has the final say on commencement and conduct of infringement proceedings. iam

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