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FRANCHISE (AMENDMENT) ACT 2020

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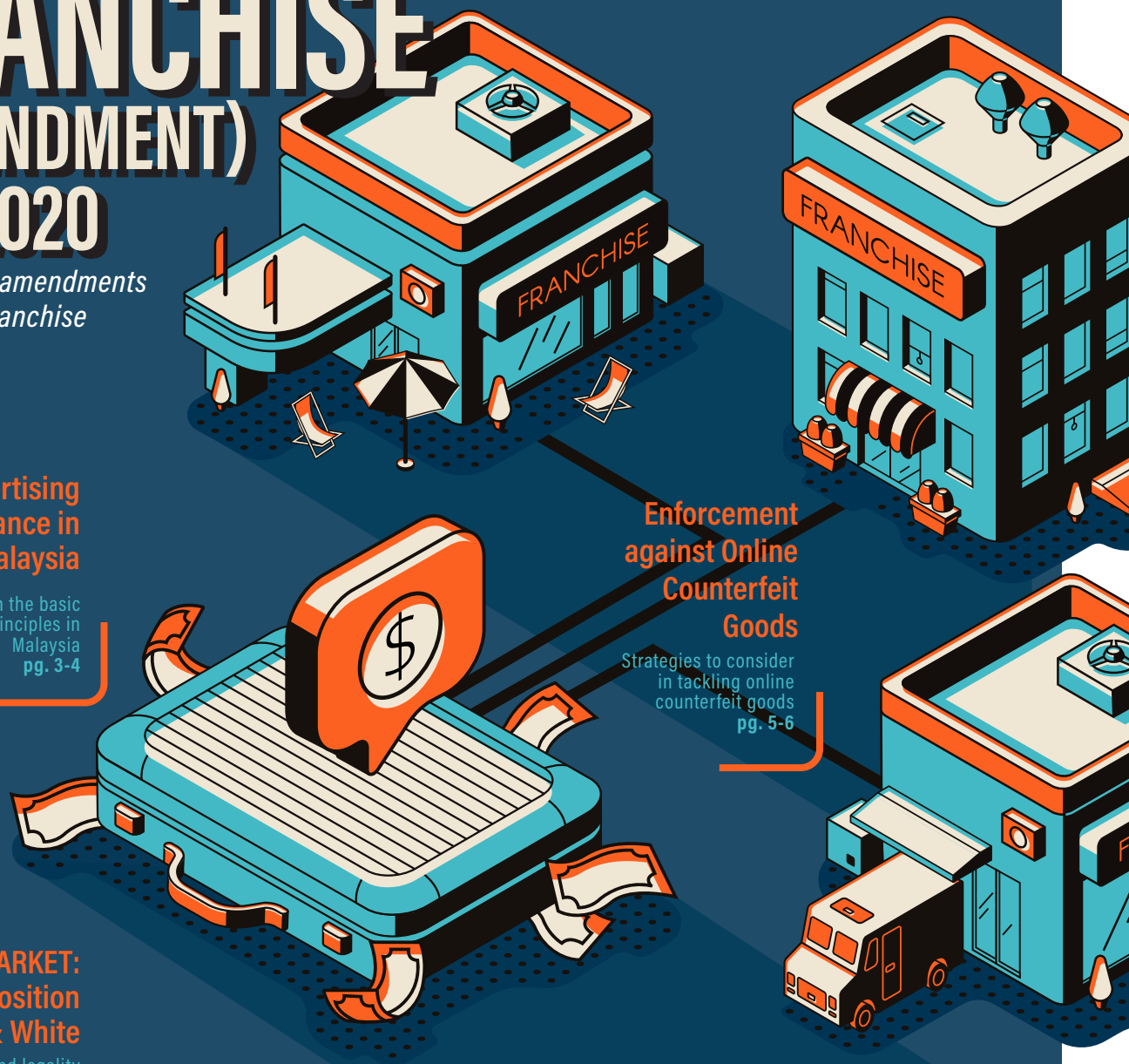

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Pua Siau Kee
analyses the legislative amendments impacting the franchise industry in Malaysia.

OVERVIEW OF THE FRANCHISE (AMENDMENT) ACT 2020

The Franchise (Amendment) Act 2020 ("Act") was gazetted on 6 March 2020 to amend the Franchise Act 1998 ("FA"). While the Act has not been accorded a commencement date, it will bring about various changes to the franchise landscape, some of which are discussed below.

ADDITIONAL REGISTRATION FOR FOREIGN FRANCHISORS

Under the current practices of the Registrar of Franchises ("Registrar"), foreign franchisors are only required to seek franchise approval under Section 54 of the FA whereas local franchisors and local master franchisees are required to register as franchisors under Section 6 of the FA. The Act however imposes a mandatory requirement on foreign franchisors to additionally obtain approval under Section 6 of the FA before they are able to make an offer to sell the franchise to any person in Malaysia.

Unless specifically exempted, this would translate into foreign franchisors having to go through the comparatively tedious process of a Section 6 application which requires extensive information such as the training and operation manuals as well as business projections to be submitted, and will also incur fees for the additional registration. Failure to comply with such requirement would be an offence under the FA. Foreign franchisors who have obtained their Section 54 approval before the implementation of the Act will however be relieved to know that their franchises will be deemed to be registered under Section 6 and thus no additional application will be required.

REGISTRATION OF FRANCHISEES

A franchisee who has been granted a franchise from a foreign franchisor, local franchisor or local master franchisee is currently required to register with the Registrar before it commences its franchised business. Given that few franchisees comply with the requirement in practice, the Act now makes it an offence in the event of non-compliance.

VALIDITY PERIOD AND RENEWAL OF FRANCHISE REGISTRATION

Currently, all franchise registrations obtained by franchisors and franchisees continue to be effective until such registrations are suspended, terminated or cancelled. The Act however introduces a validity period for all franchise registrations. After such period, franchisors and franchisees may apply to the Registrar to renew their registrations upon payment of the requisite renewal fees. The validity period and renewal fees have however not been made known and it is uncertain at this stage whether registrations obtained prior to the date of coming into operation of the Act will be subject to these provisions.

DISPLAY OF CERTIFICATE OF FRANCHISE REGISTRATION

All franchisors and franchisees will under the Act be required to display their certificates of franchise registration at their business premises. Failure to comply with the same would be an offence under the FA.

SALIENT TERMS TO BE INCLUDED IN A FRANCHISE AGREEMENT

The FA provides for various salient terms which must be included in a franchise agreement such as the name and description of the franchised business, territorial rights, fees imposed, parties' obligations, intellectual property rights etc. Under the existing FA, failure to include the prescribed salient terms would render the franchise agreement null and void. Interestingly, the Act deletes such requirement. This would mean that an agreement may still be deemed a franchise agreement even if it missed out a prescribed salient term.

ENFORCEMENT

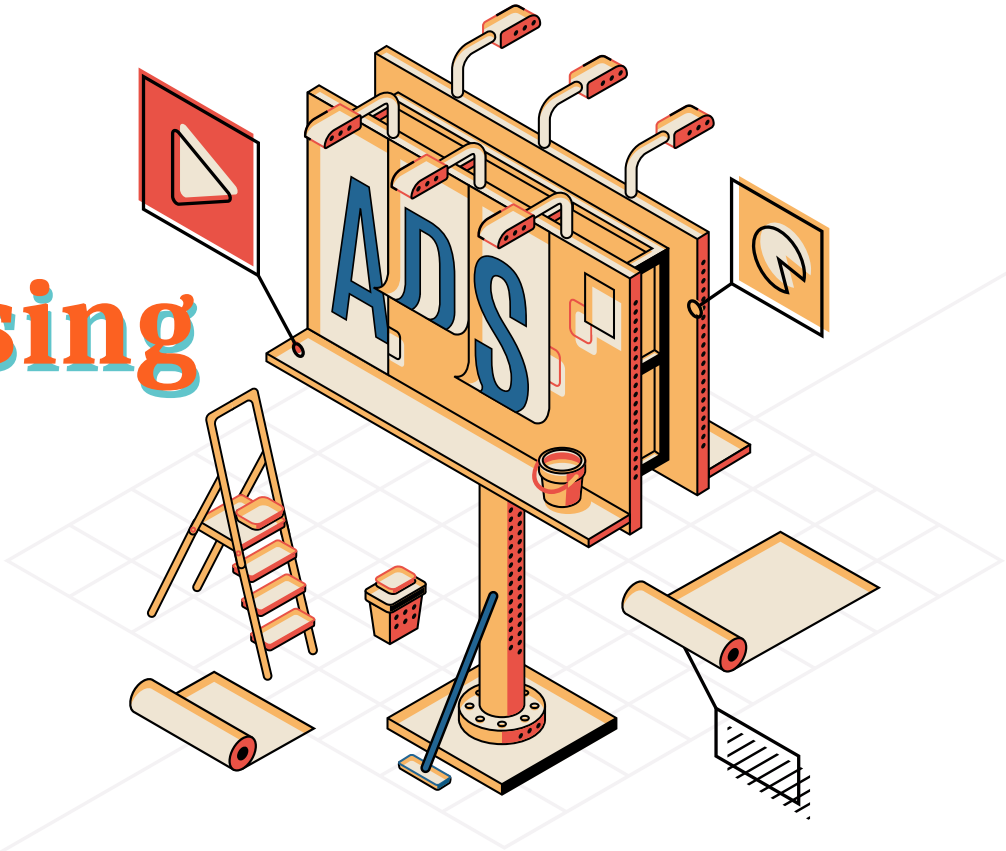
The Act strengthens the powers of the franchise enforcement officers. For instance, the Act clarifies that the items seized under the FA such as accounting books etc. are liable to forfeiture in accordance with stipulated procedures. Further, no person shall be entitled to the costs of the proceedings, damages or any relief in respect of the seized items unless the seizure was made without reasonable cause. In the case of a conviction leading to a fine, the Act further provides for a reward to the person who gave such information leading to the conviction, which shall not exceed half the fine imposed.

CONCLUSION

Only time will tell if the Act will bring the FA to be more in line with the current and ongoing developments of the franchise industry in Malaysia, which it aims to do. In view of the amendments, it is also expected that various procedures and requirements under the current Franchise Regulations 1999 will have to be revised or introduced, especially those involving the franchise registration and renewal processes.

Siau Kee *is an Associate at Wong Jin Nee & Teo. She actively advises and assists clients on franchise matters including registration. She is also skilled in patent prosecution matters.*

Advertising Compliance in Malaysia



Joanne Kong
provides a brief introduction on the basic advertising principles in Malaysia.

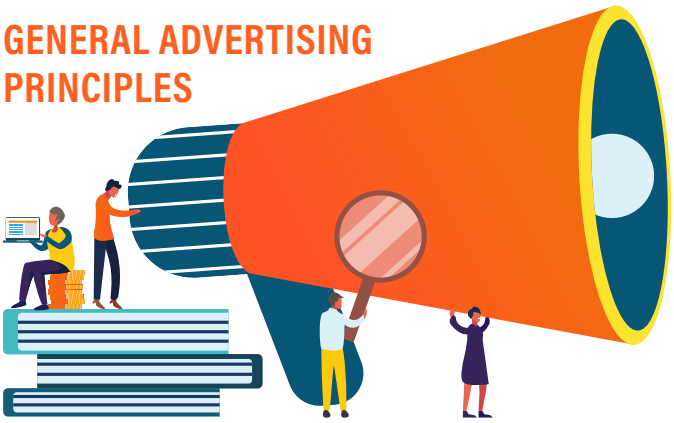
Advertising plays an imperative role for brands to promote their products and services to the public. There are however risks to advertisers letting their creative juices run wild. Some may remember the playful jab Pepsi tried to take at Coca Cola in its banned American ad which featured a young boy buying two Coke cans from a vending machine only for the purpose of stepping on them to reach for the Pepsi button which was higher up. What may have seemed like harmless and friendly fire could have led to a potential trademark infringement and disparagement lawsuit.

Closer to home, Malaysians may recall the backlash that healthcare and beauty brand Watsons received for its Raya (Eid) advertisement which featured a black-faced woman who was only regarded as beautiful after she "washed off" her face. Needless to say, the ad was slammed by the public for being racist, sexist, insensitive and tasteless.

ADVERTISING FRAMEWORK IN MALAYSIA

The advertising industry in Malaysia is largely self-regulated in accordance with various laws, regulations, codes and guidelines. The Advertising Standards Authority plays an integral part of the local advertising framework as it administers the Malaysian Code of Advertising Practice which regulates printed and paid-for-space ads. Out-of-home (OOH) ads such as billboards fall under the jurisdiction of the respective state/local authorities while national TV and radio have their own advertising and censorship codes. Electronic ads including those communicated through the internet and on privately-owned TV and radio are regulated by the Content Code administered by the Malaysian Communications and Multimedia Content Forum.

GENERAL ADVERTISING PRINCIPLES



The following are some basic advertising principles that advertisers should keep in mind to ensure compliance with the law:

- Ads shall be legal, decent, honest and truthful, and should not contain anything that is false or misleading, for example, hidden fees, inaccurate claims or comparisons, or claims with contradictory disclaimers in the fine print.
- All claims whether direct or implied must be capable of objective substantiation and advertisers must hold documentary evidence to prove such claims when called upon.
- Disclaimers are useful to clarify ad claims but do not provide an automatic defence to false or misleading claims.
- Superlatives, obvious untruths or exaggerations are generally allowed provided that they do not create any false or misleading impression. This is however completely prohibited in certain industries such as the medical industry.
- Comparative advertising is generally allowed provided that:

  (a) points of comparison can be factually substantiated;
  (b) the basis of comparison is the same;
  (c) claims are not false or misleading;
  (d) such comparison does not confer artificial advantage to suggest a better bargain when it is not the case; and
  (e) it does not trespass upon the IP rights of any third party.

- Unavailable products should not be advertised if the advertiser does not believe he can meet any demand created by the advertising. Bait advertising is thus not allowed.
- Testimonials or endorsements must be genuine and related to the personal experience of the person giving it over a reasonable period of time.
- Third party content and intellectual property as well as the personal data of an individual must not be used without prior consent, licence or other authorisation.
- Women must never be portrayed as a sex object.
- The use of children is not encouraged unless the advertised product is relevant and they should never be depicted in an unsafe manner.

PROHIBITIONS WHICH ARE UNIQUELY MALAYSIAN

Malaysia is a conservative nation and with Islam being the official religion of the country, advertisers must be careful not to include elements which are regarded as "haram" or forbidden under Islamic laws. While it would be impossible to provide an exhaustive list, the following are some elements which should be avoided:

- Cigarette, tobacco and its accessories
- Occult and fortune tellers
- Clothing with inappropriate words or symbols
- Sexually explicit, indecent or immoral content such as kissing and immodest clothing
- Pornography
- LGBT and cross-dressing elements
- Gambling
- Marriage agencies and friendship clubs
- Pig, pork products and its derivatives
- Alcoholic drinks and liquor
- Disco scenes
- Places of worship and other religious symbols or content

In addition, there are other items which are expressly prohibited by local laws from being included in ads such as the actual advertising of fire-crackers, slimming products, and national emblems and names including national flags, coat of arms and other insignia. There are further industry specific regulations for certain industries such as medical products and services, pesticides, food and drinks, alcohol and liquor, sanitary pads, cosmetics etc.

While this article attempts to cover some advertising basics, there are a myriad of things which may be regarded as unacceptable or insensitive and which may potentially offend the religious, political, sentimental or racial susceptibilities of certain communities in Malaysia. In this regard, many would not have imagined that a Raya (Eid) ad of a wombat, which was mistakenly perceived to be a pig and therefore an unclean animal, would spark public outrage and Westerners may not understand the decision to ban TV ads which were set in a hair salon and foot reflexology centre (as they are common places which provide cover for people to engage in illicit activities in certain Asian countries). It is thus important for advertisers to conduct due diligence and seek a legal review of their ads before they are published to avoid running into unnecessary legal issues and adverse publicity.

Joanne *is a Senior Associate at Wong Jin Nee & Teo. Her practice predominantly focuses on trademark prosecution, media and advertising clearance, and other compliance matters.*

What You See VS. What You Actually Get:

Enforcement against Online Counterfeit Goods

Loo Wai Hoong
discusses some strategies in tackling online counterfeit goods.

With the emergence of e-commerce giants such as Alibaba and Amazon as well as Shopee and Lazada which are hugely popular in the South East Asian region, a large portion of the retail market has shifted from brick-and-mortar premises to the online sphere since this not only saves consumers time from having to visit a physical store but also enables them to easily compare prices and products online with the help of online reviews. Unfortunately, online marketplaces are not spared by the influx of counterfeit goods and unscrupulous merchants who ride on the goodwill and reputation of genuine brands to prey on unsuspecting consumers.

As a result of the infringers' use of brand owners' trademarks and clever copying of official marketing materials, consumers are likely to be duped into purchasing items based on online product listings which appear to be seemingly legitimate. Consumers who realise they have been short-changed may be rendered helpless in attempting to get a refund or any other form of recourse since rogue merchants deliberately conceal their real identities behind a façade of fictitious accounts. It is also not uncommon for them to delete their accounts overnight as soon as issues arise. Brand owners may suffer from the loss of legitimate sales and additionally face the possibility of having their reputation tarnished in the event consumers who receive the counterfeit goods believe them to be genuine goods but of a lesser quality.

While at the outset it may seem like an uphill and never-ending task for brand owners to combat the sale of counterfeit goods online, this article seeks to explore some enforcement options which may be considered.

LODGING COMPLAINTS AND TAKE-DOWN REQUESTS WITH E-COMMERCE PLATFORM OPERATORS ("EPOS")

Upon the discovery of infringing product listings, complaints may be lodged directly with the EPOs to request for the removal or "take-downs" of the sellers' accounts, product listings and misappropriated trademarks and images. Some EPOs provide an avenue to submit such complaints on their respective websites but in the absence thereof, brand owners or their counsel may also issue Cease and Desist letters to the EPOs, requesting for the removal of the infringing materials.

IDENTIFYING THE SELLERS

Apart from conducting test purchases of suspected counterfeit goods, private investigators may be engaged to uncover the sellers' true identities. The sellers' details may also possibly be revealed through official channels by making an official complaint with and engaging the Enforcement Division of the Ministry of Domestic Trade and Consumer Affairs which has investigative powers to compel EPOs to reveal such information. Further, brand owners may also resort to commencing civil suits against the EPOs to obtain a court order to disclose the sellers' details.

CONDUCTING RAID ACTIONS, ISSUING CEASE & DESIST LETTERS AND/OR COMMENCING CIVIL SUITS

Once successfully identified, brand owners may consider conducting raid actions at physical premises where the counterfeit goods are stored, issuing Cease and Desist letters (also known as demand letters or letters before action), and commencing civil suits for trademark/copyright infringement and/or passing-off. In *Nexgen Biopharma Research & Innovation SARL v. Celcom Planet Sdn. Bhd.* (Suit No. WA-22IP-3-01/2018), the High Court allowed the plaintiff's application for summary judgment against the defendant, an EPO which operated the popular online marketplace, 11Street (now PrestoMall).

The Court held that the defendant had infringed the plaintiff's "MFIII" and/or "MFIII" trademarks ("MFIII Trademarks") which were used in various product listings. The Court granted, among others, a perpetual injunction to restrain the defendant from infringing the MFIII Trademarks and an order that it disclose the details of the relevant sellers who were infringing the MFIII Trademarks or selling counterfeit MFIII supplements on the defendant's platform. The defendant was also ordered to remove all publications and/or listings containing the MFIII Trademarks, infringing products or any product bearing the MFIII Trademarks or similar trademarks likely to deceive or cause confusion.

CONCLUSION

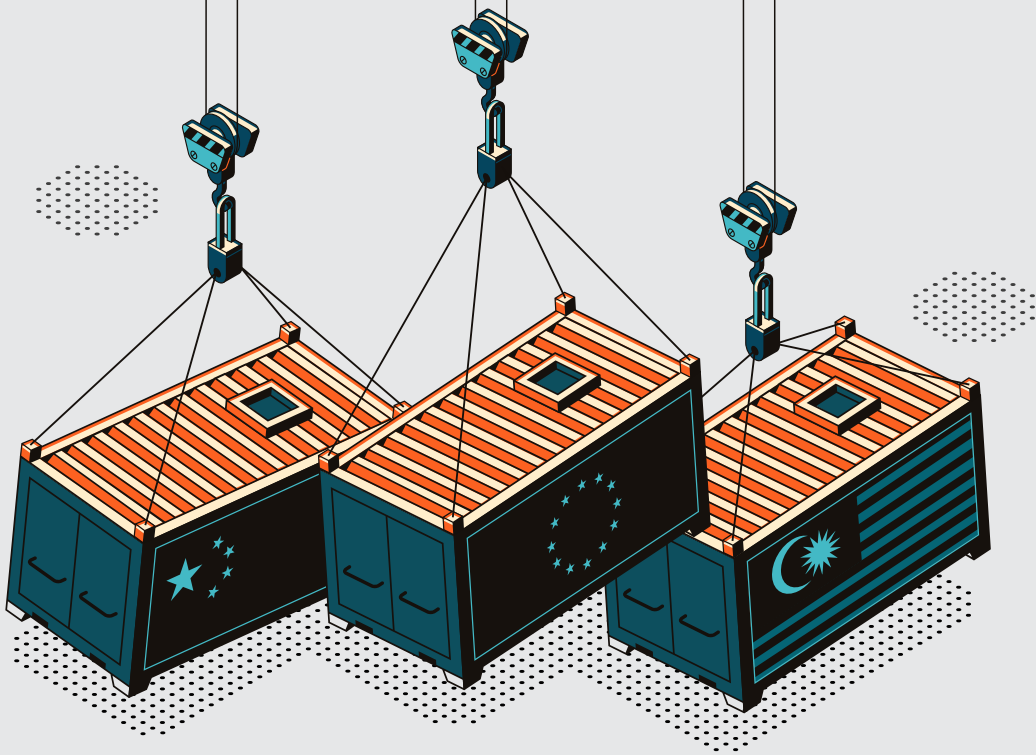
Pursuing a combination of the above-mentioned measures may provide brand owners with some compensation and relief. Nonetheless, the ongoing efforts to eradicate counterfeit goods from e-commerce platforms will continue to be severely hampered without stringent statutory and enforcement measures in place to cater to the modus operandi of online sellers. Due to the practical difficulties in identifying offending online sellers, these sellers continue to brazenly commit infringing acts anonymously since they are aware that the chances of being identified or caught are rather low.

Moving forward, the Consumer Protection (Electronic Trade Transactions) Regulations 2012 ("ETTR") should be amended to make it mandatory for EPOs to implement enhanced verification and registration processes before allowing online sellers to trade on their e-commerce platforms. Under the ETTR, online sellers are currently required to disclose their true details on the websites which they trade on but few comply with such requirement due to a lack of enforcement of the relevant provisions. In addition to increased authentication safeguards, EPOs should further consider utilising artificial intelligence to detect and crackdown on suspicious product listings of counterfeit goods. Not only would such modernised measures help to boost consumer confidence in online marketplaces, but at the same time make them safer places for consumers to shop on and prevent any adverse impact on the brand owners' reputation.

Wai Hoong *is a Senior Associate at Wong Jin Nee & Teo. He develops and implements enforcement and anti-counterfeiting programs for various clients including multinationals.*

The Grey Market

The Legal Position in Black & White



Phang Hoon Wei
discusses the impacts and legality of parallel imports in Malaysia.

WHAT ARE PARALLEL IMPORTS?

In simple terms, parallel imports (or grey market goods) are goods that are imported into and sold in a particular country, territory or market without the express permission of the brand owners in that country. For example, an oven that was intended to be sold in Country A but was imported into and sold in Country B by a third party without the brand owner's express consent would be considered a parallel import. It is important to note that parallel imports are not counterfeit products as they ultimately originate from the same brand owner or its group of companies.

WHAT ARE THE IMPACTS OF PARALLEL IMPORTATION?

- From a consumer's perspective, it would mean that the prices for goods may be lower as a consequence of competition between parallel importers and local distributors. Further, consumers will also have access to more variants of a product, which may only be available in other countries or markets.
- Despite the above positive impacts, consumers are taking a risk by purchasing parallel imported products as they may not comply with local standards, requirements or specifications. In some cases, the warranties for such goods may not be applicable locally.
- The local distributors would be adversely impacted as they have to compete with parallel importers for sales, which is often on unequal footing as the importers are not bound by the distribution terms determined by the brand owner in the particular country.
- The economic impact on the local distributors is further compounded as they have to bear the costs of advertising and marketing the products which the importers ride on to reap profits.
- Notwithstanding that parallel imports ultimately contribute to the brand owners' profits, it works as a double-edged sword against them as parallel imports may dilute their goodwill and reputation in terms of the loss of the brand's exclusivity and the safety or other compatibility issues that may arise.

ARE PARALLEL IMPORTS PERMISSIBLE IN MALAYSIA?

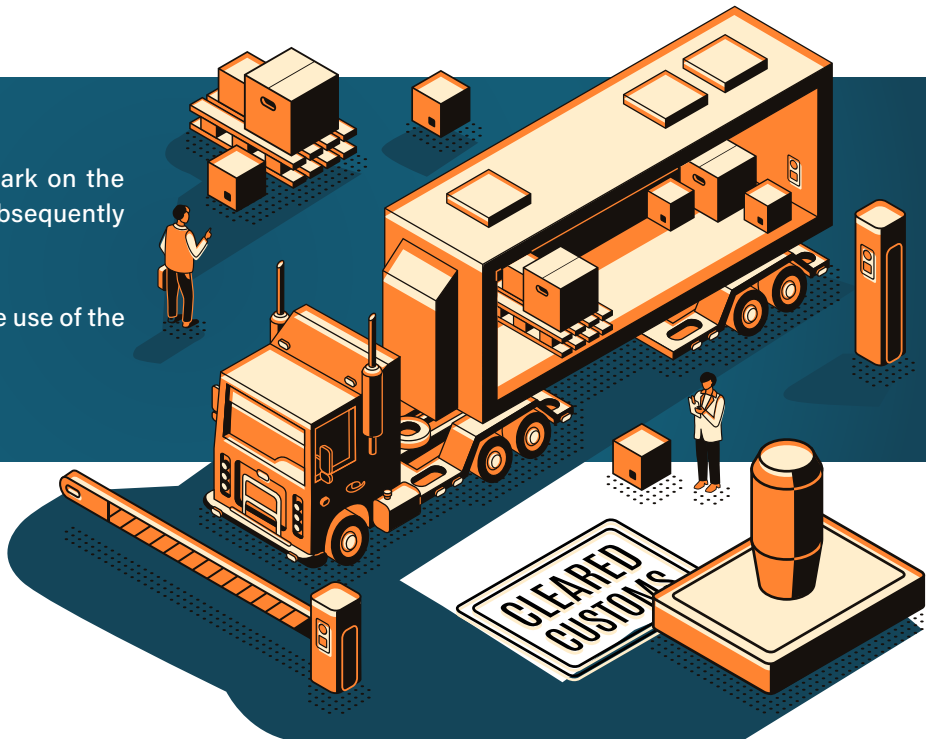
At the outset, it is worth mentioning that parallel imports do not necessarily transgress the brand owner's rights under trademark law only but also any possible copyright, patent and industrial design rights it may have since much is dependent on the nature of the parallel imported products. That said, this article will only focus on the legality of parallel imports in light of Malaysian trademark laws given the dearth of precedents in the area of copyright, patent and industrial designs in this regard.

Notwithstanding that the new Trademarks Act 2019 ("TMA 2019") has recently come into force, which replaces the Trade Marks Act 1976 ("TMA 1976"), neither Acts contain any express provisions pertaining to parallel imports. As such, it is necessary to rely on precedents decided under the TMA 1976 to construe the legal position on parallel imports.

As it stands, there are two conflicting lines of decisions by the courts. On the one hand, the courts – led by the Court of Appeal in *Planete Enfants Sdn Bhd v Goh San Hwa and other appeals* [2017] 1 MLJ 802 - have decided that parallel imports are not prohibited in Malaysia and that they do not infringe the registered mark. Over the years, parallel importers have sought refuge under Sections 40(1)(d) and (dd) of the TMA 1976 in legitimising their trade. Those provisions provide that parallel imports are permitted if the registered proprietor or user has:

(i) legitimately applied the registered mark on the goods and such mark has not been subsequently obliterated (Section 40(1)(d)); or

(ii) expressly or impliedly consented to the use of the mark (Section 40(1)(dd)).



In essence, when a brand owner manufactures and sells wholly or partly through subsidiary companies in different parts of the world products which bear the same trademark, the brand owner is deemed to have implicitly consented to the use of the registered mark on the parallel imported goods which have somehow found its way into Malaysia.

Conversely, the courts have relied on the notion of "exclusive rights" under Section 35(1) of the TMA 1976 in holding that only the registered proprietor has the exclusive right to use the trademark to the exclusion of all other parties including parallel importers. The stance that parallel imports are prohibited has been reaffirmed in the recent High Court decision of *PT Garudafood Putra Putri Jaya TBK* [2019] 11 MLJ 396, though it must be stressed that the said decision must be read with caution as it mainly concerned an ex-parte application for a trade description order by the registered proprietor.

it can be said that parallel imports are permissible in Malaysia provided that it falls under either exception in Section 40(1)(d) or (dd)

Despite the contrarian views, it is argued that Section 40(1) ought to take precedence over Section 35(1) given that the former specifically spells out the acts not constituting infringement. Further, the saving to Section 40(1) provides that it is not subject to any other provision in the former TMA, which includes Section 35(1). In view of above, it can be said that parallel imports are permissible in Malaysia provided that it falls under either exception in Section 40(1)(d) or (dd).

WHAT IS THE POSITION UNDER THE NEW TMA?

The corresponding provision to Section 40(1) of the TMA 1976 is contained in Section 55 of the TMA 2019. Interestingly, unlike what had been done with Section 40(1)(dd), the legislators have decided against incorporating the defence under Section 40(1)(d) of the TMA 1976 into the TMA 2019. Under Section 55(3)(c) of the TMA 2019, it is not an act of infringement if the use of the mark has been expressly or impliedly consented by registered proprietor or user. Although the notion of "exclusive rights" can still be found in Section 48(1) of the TMA 2019, it should likewise not override the application of Section 55(3)(c) given the saving contained therein. In the absence of any cases decided under the TMA 2019 on this issue, only time will tell whether the absence of the corresponding provision to Section 40(1)(d) in the TMA 2019 will change the legal position of parallel imports in Malaysia.

CONCLUSION

While it does appear that the present legislative and judicial landscape seem to favour parallel importers in Malaysia, all is not lost for concerned brand owners as they may resort to other peripheral legislation that relate to industry-specific product labelling or safety requirements to put a stop to parallel importation. Examples of such legislation include the Control of Drugs and Cosmetics Regulations 1984, Trade Descriptions (Certification and Marking of Halal) Order 2011, and Consumer Protection (Certificate of Conformance and Conformity Mark of Safety Standards) Regulations 2010. Although these legislation may be unconventional approaches to address the issue of parallel importation, the courts have been persuaded by such arguments in deciding against the parallel importers.

***Hoon Wei** is an Associate at Wong Jin Nee & Teo. His practice is focused on brand enforcement and can often be found on the ground assisting in raid actions.*