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STORMS IN BUBBLE TEACUPS

A look at the Tealive and Chatime disputes from a franchise perspective

STORMS IN BUBBLE TEACUPS

by Wong Jin Nee

The Malaysian franchise industry and bubble tea enthusiasts have been abuzz with the highly publicised disputes between La Kaffa International Co Ltd ("La Kaffa") and Loob Holding Sdn Bhd ("Loob"). The interests have intensified with the recent nail biting decisions by the Malaysian Courts. The Court of Appeal ("COA") had refused to stay an injunction which would have required Loob to cease operations of its TEALIVE outlets but the Federal Court ("FC"), the final appellate court in Malaysia, had thereafter stayed the execution pending appeal to the FC. While there are various causes of action and issues covered by the suits, this article will focus mainly on the franchise issues in the disputes, particularly on Section 27 of the Franchise Act 1998 ("FA") which covers prohibition against carrying on a similar business.

Background Facts

For better appreciation of the ongoing saga, the main events are set out in chronological order:

1 June 2011 La Kaffa and Loob entered into the first master franchise agreement for the CHATIME bubble tea business in Malaysia, known as Regional Exclusive Distribution Cooperation Agreement ("REDCA").

15 October 2013 The parties subsequently entered into a revised master franchise agreement known as Regional Exclusive Representation Agreement ("RERA") which superseded REDCA and was intended to expire in 2041.

28 October 2016 In accordance with dispute resolution clauses in RERA, La Kaffa commenced arbitral proceedings in Singapore ("Singapore arbitral proceedings") for various alleged breaches of RERA by Loob.

5 December 2016 Loob submitted its response and filed counter-claims in the Singapore arbitral proceedings.

5 January 2017 La Kaffa issued Loob with a termination notice of RERA asserting the same breaches covered in the Singapore arbitral proceedings including Loob's failure to carry out the following:

- purchase all raw materials from La Kaffa;
- allow La Kaffa to inspect and/or audit its accounts and records; and
- pay for raw materials purchased from La Kaffa.

19 January 2017 Although disputing the legality of the termination, Loob accepted the termination of RERA.

Late January 2017 Loob established its TEALIVE bubble tea business with 161 out of 165 CHATIME franchisees commencing operations as TEALIVE outlets.

The High Court decision

After the launch of the TEALIVE business and amidst media frenzy, both La Kaffa and Loob filed applications for interim injunctions at the Malaysian High Court ("HC") pending the disposal of the Singapore arbitral proceedings.

The HC examined the various issues raised, including the following:

(1) whether Loob, its directors (including their spouses and immediate family members) and employees ("the Loob entities") should be restrained from carrying on business which is identical or similar to CHATIME business.

(2) whether the Loob entities should be injuncted from disclosing, using and converting confidential information procured from La Kaffa under RERA.

The HC held that based on the nature and scope of the court's power under the Arbitration Act 2005, it would only grant interim measures which may support, assist, aid or facilitate the Singapore arbitral proceedings and would not decide on the merits of the proceedings.

On the construction of Sections 26 and 27 of the FA which provide that a franchisee "shall" give written guarantees to a franchisor not to disclose confidential information and refrain from carrying on a similar business, it was held that such statutory provisions do not automatically incorporate such guarantees into the franchise agreement. The learned Judge went on to say that if Parliament had intended for such guarantees to be incorporated into franchise agreements, they would have expressly stated as such. It is trite law in statutory interpretation that if the construction of a statutory provision results in penal consequences, the Court should adopt a strict interpretation in favour of the person who may be liable to such penal consequences. On this basis, the provisions were construed in favour of the Loob entities, and the guarantees were held not to be incorporated into RERA. There was thus no question of whether Loob had breached these provisions or guarantees. Alternatively, even if it were decided otherwise, the Court is not bound to grant interim injunctions as such is a matter of discretion.

Further, the Court found that granting an interim injunction to prevent Loob from using confidential information under RERA carried a higher risk of injustice as such would effectively force Loob to cease operations of its TEALIVE business. The balance of convenience thus tipped in favour of the Loob and La Kaffa's claim was accordingly refused. The HC did grant however mandatory injunctions including one to compel Loob to disclose its gross monthly sales and provide an account of profits in respect of its TEALIVE business.

The Court of Appeal decision

The COA reversed the HC's decision. The COA held that a simple construction of the relevant Article 15 of RERA and Section 27 of the FA would demonstrate that there exists an obligation on Loob not to compete with La Kaffa's business, even after the termination of RERA.

The COA went on to say that if the HC was willing to grant a mandatory injunction which threshold is very high, it ought not to have refused to grant a prohibitory injunction. The COA took the view that the HC had failed to consider Article 15 of RERA and Section 27 of the FA in the proper perspective:

"When parties have agreed not to do certain acts and a statute also provides for such protection, the court is obliged to give effect to ensure the salient

terms of the agreement as well as the statute is not breached, more so when undertaking to damages is in order. The issue of compensation is remedial in nature. It is an agreed form of compensation and does not override the paramount obligation not to breach a salient term of contract which is also protected by statute".

The COA found it unjustifiable for the HC to adopt the view that the prohibitory injunction would affect the 'TEALIVE' business consisting 161 outlets and the livelihood of 800 employees of Loob. It took the view that Loob's conduct in transforming the CHATIME business to TEALIVE overnight was not only a breach of legal obligation relating to restraint of trade but also a breach of franchise law which does not encourage criminal or tortious conduct of business. The COA accordingly held that the HC's failure to grant a prohibitory injunction was flawed, prompting Loob to seek appellate intervention.

Loob's application to the COA for a stay of the injunction pending its leave to appeal to the FC was rejected albeit with one dissenting judgment. The FC subsequently granted the stay order on 16 July 2018 to temporarily stop an injunction granted by the COA.

It is not unexpected that many franchisors are rather alarmed by the HC decision, relieved with the COA decision, and are anxious to find out how the issues would be resolved by the FC. Franchisors feel that the HC decision would make a mockery of the so-called protection expressly granted to franchisors under Section 27 of the FA to restrain their franchisees from conducting similar businesses post-termination as it would provide a free pass for ex-franchisees to start operating similar businesses without having to wait out the 2 year moratorium after the termination date.

There will however be no opportunity for the FC to answer some of these issues raised as La Kaffa and Loob have since come to a settlement and have agreed to withdraw all proceedings in the Malaysian courts and the Singapore arbitration. Both parties have also agreed to mutually stop all actions including pursuing complaints lodged for enforcement actions against each other. The parties announced in a recent joint press statement that the settlement should not constitute nor be deemed nor treated by any party as an admission of any allegation and/or liability. The issuance of the joint statement was part of the settlement terms, with all other terms to remain private and confidential.

While this settlement may not bring any relief to franchisors who may still have lingering concerns as to how the Malaysian Courts would interpret the FA in the future, we can definitely say for certain that bubble tea lovers are relieved to know they would be able to continue enjoying their favourite bubble teas from both TEALIVE and CHATIME stores.

THE GENERAL DATA PROTECTION REGULATION

How is it Applicable to Businesses in Malaysia?

by Boo Min Lee

Background to GDPR

The European Union ("EU") General Data Protection Regulation ("GDPR") came into force on 25 May 2018 and replaces the Data Protection Directive 95/46/EC ("1995 Directive"). The GDPR has the objective of, among others, ensuring an equivalent level of protection for natural persons and the free flow of personal data throughout the EU. This is especially necessary in light of data protection issues brought about by technological developments and the sheer ease of transferring data online.

1 Article 3 of the GDPR
2 Article 33 of the GDPR
3 Article 34 of the GDPR

Who needs to comply?

The GDPR has a wider territorial scope compared to its predecessor, the 1995 Directive, as it applies to the processing of personal data of data subjects in the EU by a controller or processor, regardless of whether the processing takes place in the EU or not. The processing activities covered are:-

a) the offering of goods or services to data subjects in the EU, irrespective of whether payment is required of the data subjects; or
b) the monitoring of their behaviour as far as their behaviour takes place within the EU.

This means that businesses, regardless of where they are incorporated or located would have to comply with the GDPR so long as they are processing the personal data of data subjects in the EU. While Malaysia has its own data protection legislation in the form of the Personal Data Protection Act 2010 ("PDPA"), the wide territorial scope of the GDPR would impose further obligations upon local businesses who are caught under the GDPR. The GDPR contains what is viewed as the golden standard of data protection, some of the provisions of which are not found under the PDPA.

Selected key points of the GDPR versus existing provisions in the PDPA.

i Breach notification

Under the GDPR, the data controller is obligated to report any case of personal data breach to the supervisory authority within 72 hours after becoming aware of it.[2] In the event the personal data breach is likely to result in high risk to the rights and freedoms of natural persons, such breach would have to be notified to the data subject without undue delay.[3] There is no similar provision under the PDPA.

ii Right to erasure ('right to be forgotten')

The GDPR allows a data subject to request that the controller erase personal data concerning him/her and may compel the controller to do

so if the requisite grounds apply. In comparison, while the PDPA does not have an identical provision, Section 38 does provide that a data subject may withdraw his/her consent for the processing of personal data and upon receiving such notice, the data user must cease the processing of his/her personal data. Since "processing" is defined as "collecting, recording, holding or storing the personal data or carrying out any operation or set of operations on the personal data" under the PDPA, it would be reasonable to interpret the same to mean that the data user would have to erase such personal data once the data user no longer has consent to process the same.

iii Data portability

There are 2 parts to this right under the GDPR: (1) the data subject's right to receive personal data concerning him/her in a structured, commonly used and machine-readable format; and (2) the right to transmit such data from one controller to another controller.[4] The PDPA does provide the right for a data subject to access personal data collected but it does not stipulate the format in which the personal data should be provided. There is however no similar provision when it comes to having the data transmitted to another controller.

iv Designation of representative in the Union

With the exception of (a) processing which is occasional, does not involve the processing on a large scale of special categories of data, processing of personal data relating to criminal convictions and offences, or processing that is unlikely to result in a risk to the rights and freedoms or natural persons; and (b) processing by a public authority or body; a controller or processor who is not established in the EU but processes personal data of data subjects in the EU would have to designate in writing a representative in the EU.[5] There is no such requirement under the PDPA.

Effect of Non-Compliance

Depending on the type of infringement, a company can be fined up to 20 million Euros or up to 4% of its worldwide annual turnover of the preceding financial year, whichever is higher.[6]

Conclusion

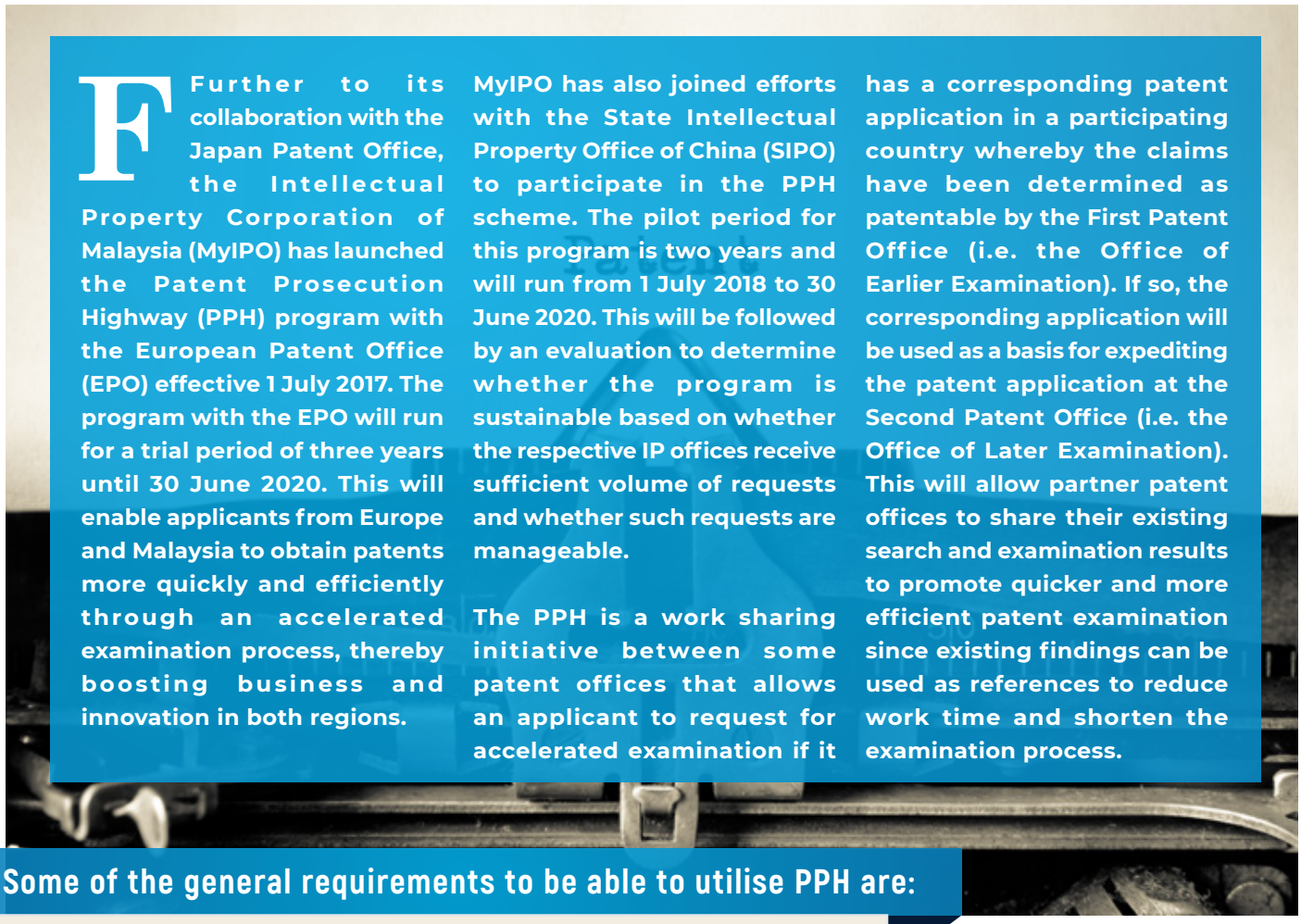
The extra territorial nature of the GDPR has brought more confusion than ever to Malaysian businesses that are just getting used to compliance with the PDPA. One may argue that there is an issue in enforcing the GDPR in the event Malaysian businesses were to breach its provisions and this remains to be seen as well. Enforcement aside, there are cogent reasons for Malaysian businesses to comply with the GDPR, particularly if they expect to deal with the personal data of data subjects in the EU. To err on the side of caution, it is likely that foreign companies would require Malaysian businesses they are working with to comply with the GDPR in view of the harsh financial penalties involved. It is thus highly recommended that Malaysian businesses be aware of this development of the law.

4 Article 20 of the GDPR
5 Article 27 of the GDPR
6 Article 83 of the GDPR

PATENT PROSECUTION HIGHWAY

Malaysia's PPH initiative now extends to Europe and China

by Pua Siau Kee



Further to its collaboration with the Japan Patent Office, the Intellectual Property Corporation of Malaysia (MyIPO) has launched the Patent Prosecution Highway (PPH) program with the European Patent Office (EPO) effective 1 July 2017. The program with the EPO will run for a trial period of three years until 30 June 2020. This will enable applicants from Europe and Malaysia to obtain patents more quickly and efficiently through an accelerated examination process, thereby boosting business and innovation in both regions.

MyIPO has also joined efforts with the State Intellectual Property Office of China (SIPO) to participate in the PPH scheme. The pilot period for this program is two years and will run from 1 July 2018 to 30 June 2020. This will be followed by an evaluation to determine whether the program is sustainable based on whether the respective IP offices receive sufficient volume of requests and whether such requests are manageable.

The PPH is a work sharing initiative between some patent offices that allows an applicant to request for accelerated examination if it has a corresponding patent application in a participating country whereby the claims have been determined as patentable by the First Patent Office (i.e. the Office of Earlier Examination). If so, the corresponding application will be used as a basis for expediting the patent application at the Second Patent Office (i.e. the Office of Later Examination). This will allow partner patent offices to share their existing search and examination results to promote quicker and more efficient patent examination since existing findings can be used as references to reduce work time and shorten the examination process.

Some of the general requirements to be able to utilise PPH are:

- The Second Patent Office application is related to the First Patent Office application e.g. both applications originate from the same PCT application or have a common priority claim;
- The examination of the Second Patent Office application has not begun at the time the PPH request is made;
- A request for Substantive Examination must have been filed at the Second Patent Office either at or prior to the time the PPH request is made.
- The First Patent Office application has at least one claim that was indicated as allowable/patentable by the First Patent Office;
- The claims of the Second Patent Office application sufficiently correspond to the allowable/patentable claims in the First Patent Office application; and
- The request for PPH has to be accompanied with copies of examination documents from the First Patent Office application. Translations may be required if the documents are not in the language used by the Second Patent Office.

As the PPH scheme does not involve any additional official fees, patent applicants in Malaysia are advised to consider this option to benefit from the accelerated examination process if they have corresponding applications in Japan, Europe or China which have been allowed or determined as patentable.

RECOGNISING GOODWILL FOR FOREIGN MARKS IN MALAYSIA

Protection of foreign trade marks in light of modern trans-border communications

by Ng Yueng May

In *Lim Yew Sing v Hummel International* Sports & Leisure [1996] 3 MLJ 7 ("*Hummel* case"), the Court of Appeal ("COA") explained that trade mark law in Malaysia is territorial in nature and it is not unlawful for a local trader to become the registered proprietor of a foreign mark if the foreign mark has not been used at all in Malaysia.

The COA did however add that the decision is not intended to encourage anybody in this country to pass off his goods as the goods of a foreign country by appropriating the foreign mark. The COA commented that in today's world of instant audio-visual communication, it is very easy for a trader to acquire distinctiveness in his trade mark to the effect that the public and trade would identify goods bearing such mark to originate from him, provided that he puts a reasonable quantity of his products on sale in Malaysia.

This decision has sparked a continuing debate as to the extent to which a foreign mark must be "used" in Malaysia in order for proprietorship to be recognised or in the case of passing off, for goodwill to be established in view of the fast changing developments in the way information and communication are exchanged across borders.

An interesting discussion on this issue can be found in the High Court ("HC") decision of *Thrifty Rent-A-Car System Inc v Thrifty Rent-A-Car Sdn Bhd & Anor* [2004] 7 MLJ 567 ("*Thrifty* case").

In this case, the appellant was an American company involved in the vehicle renting and leasing business. The appellant appointed Sintat Rent-A-Car International Pte Ltd as its sole franchisee for its business in Malaysia, Thailand and Singapore, with effect from 1 January 1985. The 1st respondent filed an application to register the 'THRIFTY RENT-A-CAR' mark in respect of inter alia paper and paper articles in Class 16 on 8 October 1985. The appellant opposed the trade mark application but the opposition was subsequently dismissed by the Assistant Registrar of Trade Marks. The appellant then appealed against the decision to the HC.

The HC found that there was evidence of use of the 'THRIFTY' mark by the appellant's franchisee in Malaysia and Singapore since early 1985 i.e. before the filing date of the application. More notably, the HC also took into consideration the appellant's extensive use of the 'THRIFTY' mark overseas and the fact that the Appellant had registered or applied to register the 'THRIFTY' mark in numerous countries. The HC referred to the passage from the *Hummel* case mentioned above and deduced the following propositions:

- Once a foreign mark has become associated in the minds of the public with the foreign trader's goods, a local trader cannot appropriate or claim proprietorship of the foreign trader's mark, even though the mark has not been used in Malaysia.
- A small amount of use of the mark by a foreign trader is sufficient to prevent a local trader from claiming proprietorship in the foreign trader's mark.

The HC added that there are *"no artificial limits on geographical areas"* to which reputation or goodwill can or cannot extend. To this end, it stated that courts should take judicial notice of improvements in modern technology and communication which has allowed the Malaysian public to come to know of foreign marks, even though such marks have not been used in Malaysia before. Put succinctly, "confusion and deception have no borders in these days of the information-technology age".

The HC also referred to a passage from the case of *The Seven-up Co v OT Ltd* (1947) 75 CLR 203 where it was stated as follows:

"[t]he court frowns upon any attempt by one trader to appropriate the mark of another trader although that trader is a foreign trader and the mark has only been used by him in a foreign country. It therefore seizes upon a very small amount of use of the foreign mark in Australia to hold that it has become identified with and distinctive of the goods of the foreign trader in Australia."

It was noted by the HC that in recent years, courts in some Commonwealth jurisdictions have taken a more liberal and pragmatic approach when assessing reputation or goodwill of foreign marks, by taking into account modern means of communications which allow businesses to be transacted across borders.

Notwithstanding the above, it is still important to bear in mind that the law as espoused by the COA in the *Hummel* case remains applicable i.e. evidence of use has to be established in order for goodwill of a foreign mark to be recognised in Malaysia. The HC in the *Thrifty* case has also indicated as such by holding that a small amount of use of the mark by a foreign trader is necessary to establish goodwill. It is thus important for foreign trade mark owners to keep track and maintain comprehensive documentary records of any local presence and business transactions in Malaysia. However, based on the other remarks made by the HC, it would appear that evidence of extensive international goodwill or extraterritorial use of a foreign mark may also be taken into consideration to bolster the case for the owners of foreign marks in view of modern advances in cross-border trade and communications. Nonetheless, to err on the side of caution and to prevent third parties from riding on the goodwill of others, it would be prudent for foreign owners to plan ahead and seek registration of their trade marks in jurisdictions that they intend to expand to from an early stage.