

novitas

BIANNUAL
NEWSLETTER

Issue No. 1

FOREIGN FRANCHISE REGISTRATION

... foreign franchisors are left in a lurch, wondering if they will additionally be required to register their franchises under section 6 of the Franchise Act 1998 ('FA') ...

pg. 1 - 3

6 TOO 'BIG' TO LOSE?

How the EUIPO sent Big Mac packing

4 OF CHAMPAGNE, PARMESAN CHEESE AND CUBAN CIGARS

A brief introduction on geographical indications in Malaysia

FRANCHISE

Oh No! Further Registration Required for Foreign Franchisors?

Wong Jin Nee and Pua Siau Kee discuss the High Court's recent decision which impacts the registration of foreign franchisors.

The High Court's recent decision in *Dr H K Fong BrainBuilder Pte Ltd v SG-Maths Sdn Bhd & Ors* [2018] 11 MLJ 701 has certainly raised some concerns amongst those in the franchise industry. In the wake of this decision, foreign franchisors are left in a lurch, wondering if they will additionally be required to register their franchises under section 6 of the Franchise Act 1998 ('FA'), on top of seeking the usual section 54 approval. This issue has particularly been weighing on the minds of foreign franchisors who have previously obtained franchise approval under section 54. Based on recent comments made by the Franchise Development Division of the Ministry of Domestic Trade and Consumer Affairs ('FDD'), it does appear that foreign franchisors may be subject to additional registration requirements, in light of this decision.

Background

Dr Fong Ho Kheong ('Dr Fong') is the founder of BrainBuilder, a business which he established to teach mathematics to school students using a method developed by him. The Plaintiff, a Singaporean entity incorporated by Dr Fong, entered into a master license agreement ('MLA') with the First Defendant to open, operate and manage BrainBuilder centres in Malaysia.

Further to commencing the BrainBuilder business in Malaysia, the Plaintiff subsequently discovered that the First Defendant had committed various breaches of the MLA, prompting it to institute an action against the Defendants. In its defence, the First Defendant contended that the MLA was invalid. Aside from the other issues brought before the Court, emphasis in this article will be given to the issues relevant to the franchise industry.

Is the MLA subject to the FA?

Given that the MLA was neither entitled a "franchise" agreement nor was there any reference to the word "franchise" in its body, the Court had to decide whether the MLA is subject to the FA, based on the obligations therein. In this regard, it was held that the Court is not bound by any label or description given by the parties to the MLA. Rather, the Court delved into the factual matrix of the case, and decided that the BrainBuilder business bears the hallmarks of a franchise. The MLA is therefore subject to the FA. In arriving at its decision, the Court had particularly relied on the following facts:

- the Plaintiff had granted the First Defendant the right to operate the BrainBuilder business according to a franchise system, for a term and consideration determined by the Plaintiff;
- the First Defendant was granted the right to use the Plaintiff's confidential information and intellectual property;
- the First Defendant was required by the Plaintiff to comply with the latter's "franchise operation manual" in its operation of the BrainBuilder business;
- Dr Fong had referred to the First Defendant as a master franchisee in his email; and
- the Plaintiff's solicitor had advised Dr Fong to register the BrainBuilder business as a franchise, though this advice was not acted upon by him.

Is the MLA Valid and Enforceable?

The MLA's validity hinged on whether the Plaintiff and the First Defendant had contravened the requirements under the FA, particularly sections 6(1) and 6A(1), which would render the MLA void and

unenforceable against the First Defendant. Pursuant to section 6(1), a franchisor is required to register its franchise with the FDD before offering to sell its franchise to any party. Conversely, section 6A(1) requires a franchisee who has been granted a franchise from a foreign franchisor to register its franchise with the FDD, prior to commencing the franchise business.

In an attempt to prove the MLA's validity, the Plaintiff had argued that it was not bound by section 6(1) since the said provision only applies to a local franchise (and local franchisor), whereas the BrainBuilder business is a foreign franchise. With regard to section 6A(1), since the onus was on the First Defendant to register with the FDD, the Plaintiff contended that it should not be penalised for the First Defendant's omission to do so.

The Court rejected the Plaintiff's arguments and held that both the Plaintiff and the First Defendant were obliged to register with the FDD under the respective provisions, which are deemed mandatory. By applying a purposive construction, the Court reasoned that section 6(1) applies to all franchisors, local and foreign alike, including a master franchisee. In its view, to hold otherwise would mean:



- (a) an absurdity whereby local franchisors would have to register with the FDD under section 6(1), but foreign franchisors would be exempted from such requirement. Under the FA, only the Minister of Domestic Trade and Consumer Affairs may exempt a franchisor, local or foreign, from this requirement under section 6(1); and
- (b) there would be an injustice caused to franchisees of foreign franchises, as a foreign franchisor would not have to comply with the mandatory provision under section 6(1).

In view of the Plaintiff's and First Defendant's failure to comply with the mandatory requirements of sections 6(1) and 6A(1) respectively, the MLA was held to be void in its entirety and therefore unenforceable.

Comments

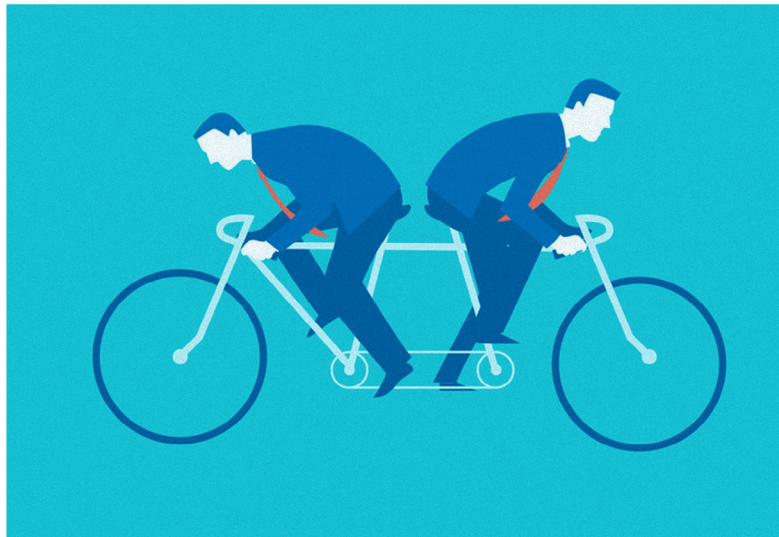
By adopting the 'substance over form' doctrine, the

Courts are not bound by labels or descriptions given to agreements, but such determination is based on the legal consequences of such agreements, having regard to the true nature of the rights and obligations agreed by the parties. Accordingly, it is important for franchisors to note that an agreement will still be considered as a franchise agreement once the cumulative conditions in the FA are present, regardless of whether it is labeled as a license, consultancy, or management agreement, or otherwise.

It is interesting to note that the High Court did not consider section 54(1) in its decision, which governs the sale of foreign franchises in Malaysia. Would the outcome have been different had section 54(1) been raised and discussed? Would it have invoked the legal maxim, *generalibus specialia derogant*, meaning that a specific provision in a statute would exclude the operation of a general provision, thereby affirming

the current practice of requiring foreign franchisors to seek approval under section 54(1) only?

Under the current practices of the FDD, local franchisors and local master franchisees are required to register under section 6, whereas foreign franchisors only have to seek approval under section 54. Unlike local franchisors and local master franchisees, foreign franchisors are thus not required to provide disclosure documents or file annual reports.



In the aftermath of this decision however, the FDD has plans to require all foreign franchisors to register under section 6, in addition to seeking approval under section 54. The FDD has now construed the section 54 application as a "visa" or "permit", that is, a pre-condition to be complied with by foreign franchisors, prior to seeking registration under section 6. Notwithstanding there being additional requirements under section 6 (amongst others, the need for the franchise agreement to be translated into the national language, and the submission of training and operation manuals), the FDD is considering an automatic registration for foreign franchisors who have obtained prior approval under section 54. However, only time will tell whether the FDD will impose more stringent requirements on foreign franchisors, which may necessitate full compliance with all registration requirements under section 6.

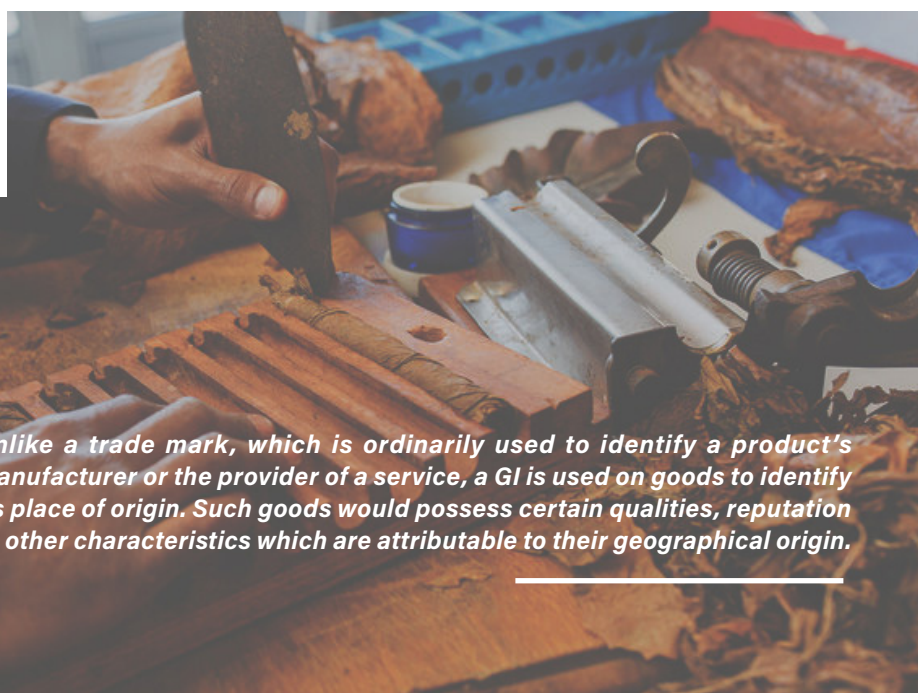
Of Champagne, Parmesan Cheese and Cuban Cigars

Joanne Kong provides a brief introduction on geographical indications.



Picture yourself sipping a glass of Champagne while nibbling slices of Parmesan cheese or Parma ham, and puffing on a Cuban cigar. In case Malaysians cannot quite relate, what about devouring baskets of Musang King durian and some kek lapis Sarawak while enjoying a cup of Tenom coffee in your Batik Terengganu outfit?

Perhaps the above items are not best enjoyed in the aforesaid combination, but they do share something in common – they are all geographical indications.



What is a geographical indication (‘GI’)?

Unlike a trade mark, which is ordinarily used to identify a product’s manufacturer or the provider of a service, a GI is used on goods to identify its place of origin. Such goods would possess certain qualities, reputation or other characteristics which are attributable to their geographical origin.

Examples of GIs

Champagne



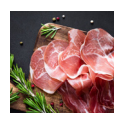
A type of sparkling wine from the Champagne region in France

Parmesan cheese (Parmigiano Reggiano)



A hard cheese from the provinces of Parma, Reggio Emilia, Modena and Mantua in Italy

Parma ham (Prosciutto di Parma)



A dry-cured ham from Parma, Italy

Tenom coffee



Robusta coffee processed using traditional firewood from the town of Tenom in Sabah, Malaysia

Cuban cigar



Cigars rolled from tobacco leaves throughout Cuba

Musang King durian



A sought after species of durian from various areas in Malaysia, known for its thick, creamy and yellow flesh

Kek lapis Sarawak



A traditional layered cake from the state of Sarawak, Malaysia

Batik Terengganu



Textile art from the state of Terengganu, Malaysia which commonly depict leaves, flowers or other geometrical designs

Under the Geographical Indications Act 2000, a GI is conferred protection regardless of whether or not it is registered. As such, any interested person may institute proceedings in the Court to prevent use of indications which are misleading as to the true place of origin of the goods. Despite this, there are benefits to registering a GI.

Why register a GI?

Registration of a GI would prevent a third party from registering such indication as a trade mark. In the case of *Agriculture & Processed Food Products Export Development Authority of India (APEDA) v. Syarikat Faiza Sdn. Bhd.* [2011] 2 MLJ 768, the defendant had registered the term “Ponni” as a trade mark. Ponni, in fact, refers to a particular variety of rice which is grown in the Kaveri Delta region in India. This case saw APEDA, a statutory authority vested with the authority engaged in the development and promotion of exports of certain agricultural and processed food products from India, relying on trade mark laws to successfully expunge the defendant’s mark.

Since a registration would enable an interested person to take protective measures against the misuse of a GI, this would help to strengthen the “brand” value of a product. GIs further add competitive advantage to a product since they help consumers with product differentiation. Just ask durian-crazed Malaysians who frown at the mention of an unnamed durian but start to salivate once they hear the term “Musang King”.

Who may apply to register?

Persons who are entitled to file a GI application include a person who is carrying on an activity as a producer in a specified geographical area with respect to specified goods, and includes a group or groups of such person; a competent authority; or a trade organisation or association. Once registered, a GI is protected for 10 years and renewable every 10 years.

Now, you may be wondering about french fries, which are obviously not only produced in France. While there may be some truth to the French origin of these potato strips, it is interesting to note that some terms may lose their function as GIs if they end up becoming generic terms.

Too 'BIG' to Lose? How the EUIPO Sent Big Mac Packing.

Eugene Ee delves into the EUIPO's reasoning for cancelling the Big Mac mark.

M

cDonald's famous "I'm lovin' it" jingle will have a different ring to it now that the European Union Intellectual Property Office ('EUIPO') has decided to revoke the registration of the 'BIG MAC' European Union trade mark ('EUTM'), which is ubiquitous with its flagship burger worldwide. Perhaps the thought of "I'm revokin' it" was on the officials' mind when the far-reaching decision in *Supermac's (Holdings) Ltd v McDonald's International Property Company, Ltd* was delivered, which held that McDonald's had failed to prove genuine use of the EUTM, in relation to both burgers and restaurant services.

Background

The aftermath of this David v. Goliath legal tussle that has reverberated across the food & beverage industry saw Irish fast-food chain, Supermac's, applying to revoke the EUTM on the basis that it had not been put to genuine use by McDonald's for a continuous period of five years between 2012 to 2017, a claim which would have seemed outrageous at the time, given the EUTM's notoriety.

The fast-food giant responded by adducing an extensive body of evidence to prove genuine use of the EUTM. This included affidavits affirmed by its employees in Germany, France and the UK, attesting to significant sales in relation to 'Big Mac' burgers, as well as examples of menus, packaging, brochures and printouts from its EU websites, all bearing the EUTM. McDonald's had also relied on a Wikipedia entry for 'Big Mac' to substantiate its case.



Decision

The EUIPO stressed that the evidence of use must establish the place, time, extent and nature of use of the contested EUTM in relation to the goods and/or services for which it is registered. With regard to the extent of use, the EUIPO commented that:

“ ...all the relevant facts and circumstances must be taken into account, including the nature of the relevant goods or services and the characteristics of the market concerned, the territorial extent of use, its commercial volume, duration and frequency ”

Guided by the aforementioned principles, the EUIPO deemed the following evidence adduced by McDonald's as insufficient to establish the extent of the EUTM's genuine use:

- **Affidavits:** *While such evidence was admissible as proof of use, sworn statements provided by interested parties themselves, or their employees, carry less probative value than evidence from independent parties. The probative value of such evidence was thus weighed against other types of evidence, such as labels, packaging or evidence from independent sources.*

- **Printouts from websites:** *The mere presence of the EUTM on the websites per se did not prove genuine use since it was not supported by other information such as the websites' traffic, the number of orders placed through the websites, or where these websites were accessed from.*

- **Packaging materials and brochures:** *There was insufficient evidence to show how the brochures were circulated, who they were offered to, and whether they had led to any potential or actual purchases.*

- **Wikipedia entry on the history of the 'Big Mac' burger:** *This was deemed to be an unreliable source of information as such entry can be edited by Wikipedia users.*



“
Takeaways
”
from the Decision

While the EUIPO's decision is subject to a likely appeal by McDonald's, it serves as a useful reminder to brand owners that even the most well-known marks that have continuously been in use, may be revoked if substantial evidence to demonstrate the extent of genuine use is not shown. Towards this end, brand owners are reminded to take proactive steps to ensure that they maintain proper records and documentations of use, rather than simply relying on the commercial success of their registered mark to resist a revocation or cancellation action.