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COMPETITION LAW

Recent Developments in Competition law

IN THIS ARTICLE, WEN-LY CHIN HIGHLIGHTS THE RECENT DEVELOPMENTS IN COMPETITION LAW IN MALAYSIA

The Malaysian Competition Commission ("MyCC") undertook a large number of investigations under Section 17 of the Competition Act 2010 ("CA") in 2014, and there seems to be quite a number of investigations pending this year. Since the coming into force of the CA in 2012, the MyCC has closed, or concluded, as the case may be, investigations into several cases, resulting in settlements by way of undertakings given by some of the investigated enterprises and some findings of infringement under Section 40 of the CA.

Change of CEO

With the departure of MyCC's first CEO, Ms Shila Dorai Raj, on 31 December 2014 after three-and-a-half years, the MyCC recently released a statement announcing the appointment of its new CEO, Dr Mohd Khalid Abdul Samad, effective 6 January 2015. Dr Mohd Khalid stated that the MyCC would maintain its independence "*despite being parked under the auspices of the Ministry of Domestic Trade, Co-operatives and Consumerism (MDTCC)*"[1].

On 2 March 2015, the Minister issued a statement on MyCC's website to cover its achievements over 2014 and to state the direction of MyCC for 2015.

Recent investigations

Allegations were made against MyEG Services Bhd ("MyEG") pertaining to online renewal of permits for foreign workers. The MyCC's new CEO announced on 15 January 2015 the commencement of investigations into MyEG.

MyCC has also recently announced that it has asked four professional bodies to dismantle scale fees they have in place[2].

Power to accept undertakings

The MyCC has accepted a total of four undertakings since the CA came into force and they have been published by the MyCC on their website from January 2014 to October 2014. The acceptance of undertakings given by enterprises may encourage them to enter into undertakings as a means to address any competition concerns that the MyCC may have. It is crucial to note that undertakings may be given without any admission of liability by the enterprise concerned.

Undertakings accepted by the MyCC

The first undertaking accepted by the MyCC was given by the Malaysia Indian Hairdressing Saloon Owners Association ("MIHSOA"). The MIHSOA member enterprises were found to have infringed Section 4(2) of the CA by fixing prices of haircut services and threatening action against member enterprises who failed to comply with the decision of the MIHSOA. The MyCC accepted

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the undertaking given by the MIHSOA "*to withdraw its decision to increase the price of haircut services by RM2.00 and to direct and ensure that none of its member enterprises engage in anti-competitive conduct in the future*".

The MyCC also accepted an undertaking given by members of the Pan-Malaysia Lorry Owners Association ("PMLOA") in relation to price fixing. Members of the PMLOA had engaged in a horizontal price fixing agreement among themselves by agreeing to increase transport charges by 15%, a decision that was found to have the objective or effect of significantly preventing, restricting or distorting competition. One of the terms of the undertaking given by PMLOA was that PMLOA had to make a public apology in various newspapers for their anti-competitive behavior.

The most recent undertaking accepted by the MyCC was on 1 October 2014 which concerned two major logistics service providers in Malaysia, namely, Giga Shipping Sdn Bhd and Nexus Mega Carriers Sdn Bhd. The MyCC commenced investigation into those enterprises in regard to allegations that they had entered into anti-competitive exclusive agreements with customers. These logistics service providers denied the allegations of infringement as the exclusive agreements provided to customers had the overall effect of being pro-competitive and pro-consumer by resulting in cost savings to their customers — this can be seen from the contents of the undertakings themselves. The logistics service providers entered into undertakings with the MyCC on the basis that there was no infringement of the CA and with a view to address the MyCC's "*preliminary competition concerns and to avoid time, the inconvenience, and expense of further proceedings or actions*"[3]. The service providers agreed to discontinue the use of exclusivity clauses, save for situations in which there had been an open tendering exercise and the clauses were for a period of two years or less.

Guidelines on leniency regime and financial penalties published

The MyCC published its *Guidelines on Leniency Regime* on 14 October 2014. Section 41(1) of the CA enables the MyCC to allow a reduction of up to a maximum of 100% in the financial penalty on the first successful leniency applicant if the applicant admits involvement in an infringement of Section 4(2) of the CA and at the same time provides significant information or any form of co-operation to the MyCC[4]. The *Guidelines on Leniency Regime* reiterates the MyCC's strong stance against cartel initiators. The CA and the guidelines give the MyCC broad discretion in granting a 100% reduction in situations where the MyCC considers it appropriate to do so, particularly for a first leniency applicant.

MyCC has also published its *Guidelines on Financial Penalties* on 14 October 2014. According to these guidelines, the financial penalties would have to "*reflect the seriousness of the infringement*" along with an aim to "*deter anti-competitive practices leading to an infringement prohibition under the Act*". The *Guidelines on Financial Penalties* further provide the factors to be considered when determining the amount of the penalty. The MyCC can take into account factors which include the seriousness of the infringement and impact of the infringement on the market[5].

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1 MyCC is independent, says CEO — *The Sun Daily*, 30 January 2015.

2 MyCC tells professional bodies to dismantle scale of fees, http://mycc.gov.my/wp-content/uploads/2015/01/News-Release-MyCC-tells-professional-bodies-to-dismantle-scale-of-fees_10032015.pdf, 10 March 2015.

3 Undertakings by Logistic Providers — Giga Shipping Sdn Bhd & Nexus Mega Carriers Sdn Bhd, 1 October 2014.

4 MyCC — *Guidelines on Leniency Regime*, published 14 October 2014.

5 MyCC — *Guidelines on Financial Penalties*, published 14 October 2014.

CORPORATE LAW

The Impact of the Abolishment of Authorised Share Capital and the Introduction to a No-Par Value Regime

IN THIS ARTICLE, JOANNE CHONG FOONG TENG ANALYSES THE IMPACT OF THE ABOLISHMENT OF AUTHORISED SHARE CAPITAL AND THE INTRODUCTION TO A NO-PAR VALUE REGIME IN THE COMPANIES BILL 2013.

The concepts of authorised share capital and par value of shares

The Companies Bill 2013 ("Bill") sets out a legal framework that will replace the current Companies Act 1965 ("CA"). The Bill covers, among other things, the abolishment of the concept of authorised share capital[1] and the introduction of a mandatory no-par value regime where shares of a company shall have no par or nominal value[2].

The CA requires a company limited by shares to state its authorised share capital in its memorandum and articles of association[3], which is the maximum amount of capital the company is authorised to raise by issuing shares. Par value (which is also known as "nominal value" in the CA) refers to the minimum amount of money that must be received by the company before the company can allot its shares as fully paid up shares. Where shares are issued above the par value, the amount in excess of the par value is called the "share premium", and the premium received whether in the form of money or monies worth must be transferred to a "share premium account"[4].

The inclusion of the concepts of authorised share capital and par value of shares in the CA are for the protection of shareholders and creditors' interests. Authorised share capital and the par value of shares are thought to protect the interest of shareholders due to the following reasons:

- authorised share capital purportedly restricts companies from the further issue of shares, which may dilute the existing shareholders' rights and the value of their existing shareholding;
- par value of shares purportedly restricts companies from issuing shares at a discount, which may dilute the value of the existing shareholding; and
- authorised share capital and par value of shares ensure that companies receive adequate consideration and have a minimum amount of capital.

However, these protections are only illusory and may be misleading as the CA only requires a company limited by shares to state in the memorandum and articles of association the amount of share capital, if any, with which the company proposes to be registered and the division thereof into shares of a fixed amount[5]. There is no requirement under the CA for a company limited by shares and having a share capital to issue all the shares it is authorised to issue. Therefore, there is no obligation on the part of the company to increase the issued share capital up to the authorised share capital to meet solvency requirements that is to settle or pay off the company's debts to the creditors.

In respect of the valuation of a company, the par value of shares is not an accurate indicator of the actual value of a company's shares because "*par value is only a face value, while the value of the company waxes and wanes, amongst other things according to its performance and outlook*"[6]. The par value may represent the actual value of the shares on the date the shares were first issued (provided that the shares were not issued at a premium) but once the company starts carrying on business, the par value would no longer reflect the actual value of the shares as the company may have made profits or incurred losses or the assets of the company may have appreciated or depreciated[7]. Therefore for the purposes of measuring the value of a company, reliance is placed on financial indicators like the net tangible assets ("NTA") of the company, future prospects or business reputation of the company and the cash flow of the company.

The no-par value regime

There is no essential difference between a share of par value and one of no-par value except that a share of par value has attached to it a fixed face value whereas a share of no-par value does not. In a par value system, the share capital is stated as follows:

> "*The share capital is RMx divided into y shares of RMz each.*"

There is therefore a fixed face value/label proclaiming that the par value is RMz. On the other hand, in a no-par value system, the share capital is stated as follows:

> "*The share capital is RMx divided into y shares.*"

Under the Bill, shares of a company shall have no par or nominal value[8]. The issue price of shares will therefore be a matter for bargain between the company and the investor or shareholder. Without par value, all proceeds from an issue of shares will be part of the company's share capital. The share premium

account and capital redemption reserve will also cease to exist thus simplifying the reporting of financial accounts. Further, without par value, the question on issuing shares at a discount does not arise[9]. This is because in a no-par value regime, shares are issued for an issue price without reference being made to the par value thus companies will not be subject to the procedures of issuing shares at a discount.

Who is affected? Transitional arrangements

All Malaysian companies with share capital are affected by the abolishment of authorised share capital and the introduction of a no-par value regime. However, companies do not have to do anything to convert their shares to no-par value shares or convert the "share premium" and "capital redemption reserve" into "share capital" as the Bill deems all shares issued prior to the abolishment to have no par value[10].

The Bill provides transitional provisions to ensure a smooth transition by providing for the amalgamation of the existing share capital amount with the amount in the company's share premium account and capital redemption reserve[11] .

In addition, with the coming into force of the Act, there will be a transitional period of 24 months for the companies to use the amount standing to the credit in the share premium account for the following purposes[12]:

- to provide for the premium payable on redemption of debentures or redeemable preference shares issued before the commencement of Clause 72[13];
- to write off [14]
    - (a) the preliminary expenses of the company incurred before the commencement of Clause 56[15]; or
    - (b) expenses incurred, or commissions or brokerages paid or discounts allowed before or upon the commencement of Clause 72, for any duty, fee or tax payable or in connection with any issue of shares of the company;
- to pay, pursuant to an agreement made before the commencement of Clause 72, shares which were unissued before that date and which are to be issued upon that date to members of the company as fully paid bonus shares[16];
- to pay up in whole or in part the balance unpaid on shares issued before the commencement of Clause 72 to members of the company[17] ; or
- to pay dividends declared before the commencement of Clause 72, if such dividends are satisfied by the issue of shares to members of the company[18].

In the event the company fails to use the amount standing to the credit of its share premium account within the transitional period of 24 months, the company may file with the Registrar[19] a notice of its share capital within such longer period as the Registrar deems fit[20].

Conclusion

The abolishment of authorised share capital and the introduction to a no-par value regime are much needed reforms. Both these concepts are no longer relevant in the present business environment as they do not serve the original purpose of protecting the interests of shareholders and creditors for the reasons explained above.

A significant number of jurisdictions like Belgium, Luxembourg, the United States, Canada, Australia, Hong Kong and Singapore have adopted a no-par value regime, and, closer to home, it has been in effect in Labuan since 2010. It would be timely for domestic companies in Malaysia to follow suit with the coming into force of the Act.

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1 Clause 30(1), Companies Bill 2013.
2 Clause 72, Companies Bill 2013.
3 Section 18(1)(c), Companies Act 1965.
4 Section 60(2), Companies Act 1965.
5 Section 18(1)(c), Companies Act 1965.
6 **Pemungut Duti Setem, Pulau Pinang v Malaysia Smelting Corporations Berhad** [2012] 5 CLJ 273 (FC).
7 Ibid.
8 Clause 72, Companies Bill 2013.
9 Section 59, Companies Act 1965.
10 Clause 72(2), Companies Bill 2013.

[11] Clause 73(2), Companies Bill 2013.
[12] Clause 73(3), Companies Bill 2013.
[13] Clause 73(3)(a), Companies Bill 2013.
[14] Clause 73(3)(b), Companies Bill 2013.
[15] Clause 56, Companies Bill 2013 refers to the power of a company to require disclosure of beneficial interest in its voting shares.
[16] Clause 73(3)(c), Companies Bill 2013.
[17] Clause 73(3)(d), Companies Bill 2013.
[18] Clause 73(3)(e), Companies Bill 2013.
[19] Clause 2, Companies Bill 2013 states "Registrar" means the Registrar of Companies as provided under the Companies Commission of Malaysia Act 2001 [Act 614].
[20] Clause 73(7)(b), Companies Bill 2013.

DISPUTE RESOLUTION

Malaysian Trade Union Congress & Ors v Menteri Tenaga, Air dan Komunikasi & Anor [2014] 3 MLJ 145

IN THIS ARTICLE, TAY POR HAI REVIEWS THE CASE OF **MALAYSIAN TRADE UNION CONGRESS V MENTERI TENAGA, AIR DAN KOMUNIKASI** ON THE TEST OF *LOCUS STANDI*

Introduction

In this case, the Federal Court reviewed the test of *locus standi* (the threshold that needs to be satisfied) for a person to bring an application for judicial review pursuant to Order 53 Rules of the High Court 1980 to challenge a decision of any public or governmental authority.

Background facts

The Malaysian Trade Union Congress ("MTUC") applied to the Minister of Energy Water and Communications for a copy of a concession agreement between the water authority, the Selangor State Government and the Federal Government and an audit report justifying an increase in water tariffs. The application was refused as the Minister contended that they were classified documents. MTUC and 13 others filed an application for judicial review of the Minister's decision in refusing them access to the two documents. MTUC contended that, as water consumers within the area covered by the concession agreement, it had established *locus standi* to bring the action.

Question posed in the Federal Court

The appeal before the Federal Court was in respect of the threshold that needed to be satisfied to bring an action for judicial review and the question posed was in respect of the following issue:

> "*Whether the test of locus standi propounded by the Supreme Court in Government of Malaysia v Lim Kit Siang [1988] 2 MLJ 12 ie that an applicant must establish infringement of private right or the suffering of special damage still applies to application for judicial review, and to what extent, in light of the present O 53 r 2(4) of the Rules of High Court 1980.*"

The decision of the Federal Court

The Federal Court held that the test set in **Lim Kit Siang** was related to a claim in private law and not to judicial review proceedings and accordingly refused to apply the same test.

The Federal Court held that, in respect of judicial review proceedings, the "*adversely affected*" test is the single test for all remedies provided for under Order 53 of the Rules of the High Court 1980. To satisfy the "*adversely affected*" test, the applicant has to at least show that he has a real and genuine interest in the subject matter and it is not necessary for the applicant to establish infringement of a private right or the suffering of special damage.

The Federal Court recognised the need for the law to remain relevant to achieve the objective of the law and also the fact that the English Courts had over the years adopted a more liberal approach, especially in matters of public interest.

Applying the "*adversely affected*" test, the Federal Court held that MTUC has *locus standi* because MTUC had demonstrated that they had a real and genuine interest in the subject matter and, as such, was adversely affected by the Minister's decision in refusing access to the two documents.

Significance of the decision

The decision of the Federal Court signifies an inclination towards a more liberal and flexible approach in construing Order 53 of the Rules of the High Court 1980 as to who can apply for judicial review and is a significant step forward as regards to public interest litigation. The consideration of whether an applicant has real and genuine interest in the subject matter would certainly result in a wider spectrum of avenues for the betterment of society at large as regards the scrutiny of actions taken by public or government authorities. This is because such application is no longer dependent on establishing infringe-

ment of private right or special damage.

The Federal Court also applied the decision of the Court of Appeal in **QSR Brands v Suruhanjaya Sekuriti & Anor**[1] which took note of the fact that public interest litigation is entertained for the purpose of redressing public injury, enforcing public duty, protecting social rights and vindicating public interest. The purpose of entertaining such litigation was for the vindication of the rule of law, effective access to justice and the meaningful realisation of fundamental rights.

Conclusion

The decision of the Federal Court in showing openness towards public interest litigation is to be lauded. With a more flexible approach towards the test of *locus standi*, public interest litigation will serve as a greater tool to remedy public injury, protect social rights and vindicate public interest. With the relaxation of the threshold it is important to strike a balance to ensure that any applicant who does not have a real and genuine interest will not burden public authorities with vexatious litigation.

Order 53 of the Rules of the High Court 1980 has since been amended. Order 53 Rule 2(4) of the recently amended Rules of Court 2012 also stipulates that any person "*adversely affected*" by the decision, action or omission in relation to the exercise of the public duty or function shall be entitled to make an application for judicial review. As such, the decision of the Federal Court on the test of *locus standi* will remain relevant.

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[1] [2006] 3 MLJ 164

EMPLOYMENT LAW

Gender Discrimination in Employment: An Update

IN THIS ARTICLE, JAMIE GOH MOON HOONG LOOKS AT GENDER DISCRIMINATION IN THE WORKPLACE

Discrimination generally means treating someone differently and less favourably on the basis of some characteristic such as age, gender, race or religion. Gender-based discrimination is an adverse action or differential treatment against a person that would not have occurred if the person was of another sex. Discriminatory practices in employment may arise in hiring, promotion, job assignment and so on.

Fredman observed:

> "*Most anti-discrimination legislation follows a well-trodden path: those who are equal deserve equal treatment, and, conversely, those who are different are treated differently.*" [1]

Article 8(1) of the Federal Constitution reads as follows:

> "*All persons are equal before the law and entitled to the equal protection of the law.*"

Article 8(2) of the Federal Constitution reads as follows:

> "*Except as expressly authorized by this Constitution, there shall be no discrimination against citizens on the ground only of religion, race, descent, place of birth or gender in any law or in the appointment to any office or employment under a public authority or in the administration of any law relating to the acquisition, holding or disposition of property or the establishing or carrying on of any trade, business, profession, vocation or employment.*"

In the case of **Beatrice AT Fernandez v Sistem Penerbangan Malaysia & Anor**[2], the applicant, a flight stewardess, had 11 years of service with the national carrier, MAS. The terms and conditions of service of the applicant were governed by a collective agreement between the MAS Employees Union ("MASEU") and MAS. Article 2(3) of the collective agreement required an air stewardess to resign or face termination if she became pregnant. When the applicant became pregnant, she refused to resign and her services were thereby terminated.

One of the issues of law raised by the applicant was whether Article 8 of the Federal Constitution applied to the terms and conditions of the collective agreement thereby rendering the said terms discriminatory in nature and unconstitutional. The Court of Appeal held that a constitutional safeguard fell within the domain of public law and dealt only with the issue of the contravention of individual rights by a public authority. The Federal Court concurred with this and agreed that it was not possible to expand the scope of Article 8 to cover a collective agreement as a collective agreement is not "*law*" per se.

The issue as to whether Article 2(3) of the collective agreement (which required resignation upon pregnancy) violated Article 8(2) of the Federal Constitution as it was discriminatory in nature was inapplicable to this case as the amendment to Article 8(2) to include gender discrimination was only effected after the filing of the case. This issue was not raised in the application for leave to appeal to the Federal Court.

The decision in the case of **Noorfadilla binti Ahmad Saikin v Chayed bin Basirun and Ors**[3] was a move towards a rights-centered approach. In this case, the "*Guru Sandaran Tidak Terlatih*" ("GSTT") post offered to the plaintiff was revoked and withdrawn by the defendants on the ground that the plaintiff was pregnant. The main issue for the Court's determination was whether the action or directive of the defendants in refusing to allow a pregnant woman to be employed was tantamount to gender discrimination in violation of Article 8(2) of the Federal Constitution.

The Court noted its duty to take into account the Government's obligation under the Convention on the Elimination of All Forms of Discrimination against Women ("CEDAW") in interpreting Article 8(2). CEDAW, which was adopted in 1979 by the United Nations General Assembly, is the foremost United Nations treaty on women's rights.

Article 1 of CEDAW defines discrimination against women as:

> "*Any distinction, exclusion or restriction made on the basis of sex which has the effect or purpose of impairing or nullifying the recognition, enjoyment or exercise by women, irrespective of their marital status, on a basis of equality of men and women, of human rights and fundamental freedoms in the political, economic, social, cultural, civil or any other field.*"

Article 11(1)(b) of CEDAW provides that:

> "*State Parties shall take all appropriate measures to eliminate discrimination against women in the field of employment in order to ensure, on a basis of equality of men and women, the same rights, in particular...the right to the same employment opportunities, including the application of the same criteria for selection in matters of employment.*"

Applying Articles 1 and 11 of CEDAW as well as the Canadian Supreme Court case of **Brooks v Canada Safeway Ltd**[4], the learned judge held that the refusal to employ a woman on the grounds of pregnancy alone is a form of gender discrimination "*because of the basic biological fact that only women have the capacity to become pregnant*". Further, the actions of the defendants fell within the ambit of Article 8(2) of the Federal Constitution as they were public authorities. The Court would have to overcome the public and private law dichotomy had the defendants been private employers as in the case of **Beatrice Fernandez**.

Conclusion

In light of the public and private law dichotomy, gender equality legislation would be the way forward to afford protection against gender discrimination.

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1 Sandra Fredman, *A Difference with Distinction: Pregnancy and Parenthood Reassessed*, 110 the *Law Quarterly Review* at p 106
2 [2005] 3 MLJ 681
3 [2012] 1 CLJ 769
4 [1989] 59 DLR (4th) 321

INTELLECTUAL PROPERTY

Grey Market Imports and the Grey Area in Trademarks Law

IN THIS ARTICLE, RAGHURAM SUPRAMANIUM CONSIDERS THE ISSUE OF PARALLEL IMPORTATION OF GENUINE PRODUCTS, ALSO KNOWN AS GREY MARKET IMPORTATION, VIS-A-VIS CASE LAW ON TRADEMARK INFRINGEMENT UNDER THE TRADE MARKS ACT 1976.

Halsbury's Laws of Malaysia[1] defines parallel importation as importation and sale by third parties of genuine goods originating from the owner of industrial property rights but obtained from another country, parallel to the industrial property owner's own importation of such goods into Malaysia. In respect of trademarks, parallel importation would be the importation and sale by third parties of trademarked (as registered in Malaysia) goods which originate from the registered owner or registered user of the trademark.

In reality, however, there are two facets to this parallel importation story — importation that is consented to by the trademark owner and importation that is not. For instance, importation of goods by authorised importers and distributors of the registered owner, from an authorised source other than the registered owner or registered user itself, is allowed. It is the importation of goods by third parties from sources outside the registered owner's distribution chain that is often resisted by a registered owner.

For many years, with no concrete statutory sanctions, the question remains on how a registered owner may prevent the unauthorised importation of parallel import goods into Malaysia and the sale and distribution of such goods within Malaysia, simply for the reason that these third party importers and resellers would be dealing with the registered owner's potential customers who, if not for the parallel-imported goods, would have purchased such goods from the authorised distributor of the registered owner.

In the landmark judgement of **Winthrop Products Inc & Anor v Sun Ocean (M) Sdn Bhd & Anor**[2] ("**Winthrop**"), the Court held that the first Plaintiff, Winthrop Products Inc, and second plaintiff, Sterling Drug (M) Sdn Bhd, being the registered proprietors and users of the trademark in Malaysia respectively, could not object to the putting into the market in the United Kingdom or elsewhere of products bearing the same trademark by the manufacturer's related companies. In this case, the analgesic PANADOL had been imported into Malaysia by the second Defendant, Maltown Ltd, and sold in Malaysia through the first defendant, Sun Ocean (M) Sdn Bhd. The plaintiffs, who were both ultimately owned by the parent company Sterling Drug Inc, then took an action against the defendants for trademark infringement. During trial, it was revealed that the second defendant had obtained the goods directly from Sterling Winthrop Group Ltd (another UK subsidiary of the ultimate holding company, Sterling Drug Inc) or on occasions, a British wholesaler called Chemisave to which Sterling Winthrop Group Ltd supplies to.

The High Court Judge, VC George (as he then was) held, *inter alia*, that where a parent company (or a group of companies) chooses to manufacture and sell through a subsidiary or related companies in different parts of the world products which bear the same trademark, the registered owner in Malaysia could not object to the importation and distribution of such imported goods in Malaysia. The learned judge held that the registered owner and registered user in Malaysia can be said to have impliedly consented to said acts, so that the holder of the goods acquires the absolute ownership of the goods including the right to sell the goods in any part of the world in the same condition in which they were disposed of.

This case, however, is not one that concerns Section 40(1)(d) of the Trade Marks Act. Section 40(1)(d) of the Act provides that once a Malaysian-registered trademark has been legitimately applied to particular goods, through a manufacturing process or otherwise by the registered proprietor or the registered user, the subsequent dealings with such trademarked goods in Malaysia are not trademark infringements under Section 38(1) of the Act, particularly when the registered owner or the registered user has impliedly consented to the use of the trademark in Malaysia. Effectively, once the goods bearing the registered trademark are put into the Malaysian market by the registered owner or the registered user, the registered owner is unable to prevent the sale and distribution of such goods in Malaysia.

The application of Section 40(1)(d), however, is territorial. Hence, it not only does not extend to cover international exhaustion of the registered owner's rights, but also appears to relate only to goods in Malaysia to which the registered trademark is applied to.

What then happens to a registered trademark that has been legitimately applied to particular goods outside Malaysia but with subsequent dealings over such trademarked goods within Malaysia? In **Winthrop** the "*PANADOL*" trademark was a registered trademark in Malaysia, but the goods were manufactured in the United Kingdom and then imported into Malaysia. The Court held that the registered proprietor of the trademark in Malaysia could not object to the goods being put into the market anywhere around the world by the manufacturer's related companies, Malaysia inclusive. The consent of the registered proprietor also appears to be irrelevant.

In essence, this decision implies that parallel importation is legitimate and proprietors of registered marks are unable to prevent the parallel importation and sale of such goods in Malaysia.

Moving forward, in the more recent case of **Tien Ying Hong Enterprise Sdn Bhd v Beenion Sdn Bhd**[3], the High Court held that parallel importation of goods without the consent of the registered proprietor amounted to trademark infringement. The plaintiff was the registered proprietor of the "*SEIZAIKEN*" trademark for batteries in Malaysia. The defendant imported the *SEIZAIKEN* batteries from a company in Hong Kong, which in turn procured the batteries from Seiko Instrument Inc in Japan. The Court in this case distinguished the case of **Winthrop** on the basis that, in the earlier case, parallel importation was permitted because the plaintiff and defendant were subsidiaries of the same corporate group and, as such, the plaintiff was deemed to have impliedly consented to the importation of the products in question. However, in the present case, the plaintiff had no connection or association with Seiko Instrument Inc or even the supplier from Hong Kong.

The Court went on further to hold that, pursuant to Section 35 of the Trade Marks Act 1976, the registered proprietor of the "*SEIZAIKEN*" trademark had sole and exclusive right to sell and distribute goods bearing that trademark in Malaysia and, pursuant to Section 38, no one else had the right to import, sell or advertise for sale such batteries in Malaysia without prior permission of the plaintiff. Parallel imports are therefore permitted only if the registered proprietor of the trademark consented to the importation, distribution and sale in Malaysia.

Although the decision in the above case appears to have settled the debate in favour of trademark owners, the judgment should be treated with caution as the Court not only did not provide reasoning for its findings but also did not interpret and or consider Sections 35, 38 and 40(1)(d) of the Act extensively applied to the facts.

Section 35 provides that the registration of a person as a registered proprietor gives that person the exclusive right to the "use" of the trademark in relation to those goods claimed, meeting the pertinent function of a trademark as a source identifier. Section 38(1) of the Act provides that trademark infringement is committed when a person, who is not the registered proprietor or registered user of the trademark, uses a mark which is identical to it or so nearly resembling it as is likely to deceive or cause confusion in the course of trade in relation to goods in respect of which the trademark is registered, in such a manner as to render the use of the mark likely to be taken as importing a reference to a person having the right as registered proprietor to use the trademark. Read together, these two provisions serve to imply that third parties are prevented from using the mark in respect of the goods only in instances where the goods do not originate from the registered proprietor.

As the Court did not state the reason for holding that no one else had the right to import, sell or advertise the goods registered under the trademark, nor did it discuss the need to fulfil the requirements of the limbs of Section 38(1) before establishing infringement, trademark owners still have to prove that confusion and deception are likely to occur by the importation and distribution of third parties parallel to the registered owner's or registered user's own importation of such goods into Malaysia with no clear precedent to rely on.

The issue of prior permission of the trademark proprietor is also of concern, as in practice, a manufacturer or registered owner would not be expected to freely grant permission to any third-party importer and reseller of its products. With such a defensive mind-set taken by the manufacturers, the requirement to obtain consent, as set out by the Court, would be a challenge.

Conclusion

With the recent developments in case laws concerning parallel import goods, it appears that third party importers and resellers may no longer use the defence of parallel import to resist infringement proceedings brought about by registered trademark owners. Be that as it may, it still remains a challenge for trademark owners to definitely establish infringement under Section 38(1) of the Trade Marks Act 1976, as even with the recent decision of **Tien Ying Hong**, there is neither guidance nor precise interpretation of the provisions of the Act to hold such third parties liable for causing deception or confusion in the market.

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1 Vol 22 (2007 Reissue) para 520.600
2 [1988] 2 MLJ 317
3 [2010] 8 MLJ 550

REAL ESTATE

Distinction between a Lease or a Tenancy and a Licence

IN THIS ARTICLE, DING MEE KIONG DISCUSSES THE DISTINCTION BETWEEN A LEASE OR A TENANCY AND A LICENCE

Lease and Tenancy

A lease or a tenancy is created when a lessor grants a lessee a right to exclusive possession over the land or part of the land for a certain period and in consideration of the payment of rent. Under the National Land Code 1965 ("National Land Code"), a letting of land for a term exceeding three years is referred to as a lease. The maximum period for which a lease may be granted is 30 years in respect of part of the land and 99 years in respect of the whole land. A tenancy shall be for a term not exceeding three years and is termed as "*tenancy exempt from registration*" under the National Land Code. A lease may be registered whereas a tenancy is not a registrable interest. However, tenants of a tenancy exempt from registration may seek protection under the National Land Code by endorsing their interest on the register document of title.

Licence

A licence has some of the features of a lease or a tenancy but there is no grant of a right to exclusive possession. The significant difference between a lease or a tenancy and a licence is that a licence does not confer upon the licensee an interest in land. A licence is a personal right and would not be enforceable against third parties. It merely makes an action lawful without which would be unlawful. In contrast, a lease or a tenancy creates an interest in land that binds third party purchasers after registration or endorsement on the title.

Distinction between a lease or a tenancy and a licence

What is the distinguishing factor between a lease or tenancy and a licence? Traditionally, where the grantee is given exclusive possession for a term in return for payment of rent, a lease or a tenancy is created.

Denning LJ in the case of **Errington v Errington & Wood**[1] said that "*the test of exclusive possession is by no means decisive*" in determining the nature of the interest granted. The decisive test was that of the intention of the parties, hence, there is no lease if the intention is not to grant a lease even if there is exclusive possession. The result is that although a person let into exclusive possession is, *prima facie*, to be considered a tenant, nevertheless, he will not be held to be so if the circumstances and conduct of the parties negative any intention to create a tenancy.

The Court in the case of **Addiscombe Garden Estates Ltd v Crabbe**[2] was of the view that, save in exceptional cases, while exclusive possession is not decisive, it is still of first importance.

The decision in **Errington v Errington & Woods** was followed in **Isaac v Hotel de Paris Ltd**[3] where the Privy Council observed that, although exclusive possession has been granted, the arrangement amounted to a licence because the conduct of the parties and the surrounding circumstances showed a licence was intended.

The cases mentioned above seem to suggest that licences which grant exclusive occupancy to the occupier does not in itself convert the relationship into a lease or a tenancy. Hence, the grant of exclusive possession is not the decisive factor in determining the nature of the relationship.

In **Woo Yew Chee v Yong Hong Hoo**[4], the ultimate test, according to the late Raja Azlan Shah Ag CJ (Malaya) (as he then was), in deciding whether a transaction is a licence or a tenancy is "*the nature and quality of the occupancy, whether it is intended that the occupier should have a stake in the premises sub-let or whether he should have only a personal privilege*". The principle applied in this case seems to be in accordance with the view taken by Lord Denning MR in **Marchant v Charters**[5]:

> "*It does not depend on whether he or she has exclusive possession or not. It does not depend on whether the room is furnished or not. It does not depend on whether the occupation is permanent or temporary. It does not depend on the label which the parties put on it. All these are factors which may influence the decision but none of them is conclusive. All the circumstances have to be worked out. Eventually the answer depends on the nature and quality of the occupancy. Was it intended that the occupier should have a stake in the room or did he have only permission for himself personally to occupy the room, whether under a contract or not, in which case he is a licensee?*"

Following the case of **Woo Yew Chee v Yong Hong Hoo**, the intention test applied in **Errington v Errington & Woods** was affirmed by Chang Min Tat FJ while delivering the judgment in **Mohamed Mustafa v Kandasami**[6].

Subsequently, in the case of **Street v Mountford**[7], the House of Lords held that the agreement created a lease notwithstanding that parties have agreed to call the agreement a licence. Parties cannot turn a tenancy into a licence merely by calling it one. All the elements of a lease, including exclusive possession, are satisfied notwithstanding that the agreement was expressly stated to be a licence. The tenant was granted exclusive possession of the premises in consideration of a licence fee under the licence agreement. As per Lord Templeman, "*to constitute a tenancy the occupier must be granted exclusive possession for a fixed or periodic term certain in consideration of a premium or period payments*".

Bingham LJ in **Antoniades v Villiers**[8] expressed that "a *cat does not become a dog because the parties have agreed to call it a dog*".

Notwithstanding the decision of the House of Lords in **Street v Mountford**, the approach of looking at intention and surrounding circumstances adopted by the Federal Court in **Woo Yew Chee v Yong Hong Hoo** and **Mohamed Mustafa v Kandasami** has been followed in a number of Malaysian cases and has not been reversed.

Conclusion

If exclusive possession is granted but it is intended that the occupier should only have a personal right, there is no lease but only a licence. However, without exclusive possession, no lease would be created.

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1 [1952] 1 KB 290
2 [1958] 1 QB 513
3 [1960] 1 WLR 239
4 [1979] 1 MLJ 131
5 [1977] 3 All ER 918
6 [1979] 2 MLJ
7 [1985] 1 AC 809
8 [1990] 1 AC 417, HL

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