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Review

# Anti-counterfeiting 2010

# Malaysia

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Counterfeiting is a global menace polluting worldwide markets with tainted stock, which in turn creates false impressions of economic security. Counterfeiting is also a local nuisance, which can set the scene for other illegitimate activities, such as money laundering and human trafficking. ‘Glocalization’, although not a commonly used term, captures exactly what the worldwide IP community continues to strive for – to generate innovative initiatives and cross-border solutions for international IP rights violations.

This year, Malaysia once again appeared on the Office of the US Trade Representative’s watch list after the Special 301 Review. Statistics show that from 2004 to 2008, the value of counterfeit goods seized throughout Malaysia was more than a record M\$212 million (\$60.57 million). Despite the many enforcement efforts taken by the Malaysian government to curtail

piracy and counterfeiting, the number of reported cases continues to grow. As a result, Malaysia’s legal IP infrastructure has been aggressively enhanced through legal reform and government enforcement initiatives in an effort to quash the perception that Malaysia is a hotbed for counterfeiting.

#### **Legal framework**

In Malaysia, both registered and unregistered marks are protected under the Trademark Act 1976. Owners of registered marks can bring both infringement and passing off actions against counterfeiters in the civil courts. Owners of unregistered marks can avail of a cause of action under the tortious wrong of passing off against the wrongdoer.

Various enactments and laws may be invoked against counterfeiters. These include:

- the Trademark Act 1976, which provides a framework for the protection and enforcement of trademarks through civil redress;
- the Trade Description Act 1972, which governs the quasi-criminal nature of

state prosecution that may be initiated by the trademark owner. Both this and the Trademark Act are used by the enforcement division of the Ministry of Domestic Trade, Cooperatives and Consumerism (MDTCC) to detect, deter and detain counterfeiters;

- the Copyright Act 1987, which provides remedies to wronged trademark owners where the mark also comprises copyright interests;
- the Trade Descriptions (Original Label) Order 2001, which came into force on January 15 2003 as yet another attempt to address ever-increasing levels of piracy and counterfeiting in the film, music, games, software and audio recording industries. Under the order, all optical disc products are required to carry an original label, usually a hologram, granted by the MDTCC. The holograms must be conspicuously affixed inside the shrink wrap of all copies of works distributed in Malaysia (whether manufactured locally or abroad); and

- the Price Control (Labelling by Manufacturers, Importers, Producers or Wholesalers) Order 1980, which makes it an offence to sell a product that does not carry the name and address of the manufacturer, importer, producer, wholesaler and, in the case of imported items, country of origin. The information displayed on counterfeit products is rarely accurate; counterfeiters often use fictitious names and addresses. If these details are incorrect, inadequate or incomplete, the products may be seized by the MDTCC, which is empowered to enforce such provisions.

### Border measures

Article 51 of the Agreement on Trade-Related Aspects of Intellectual Property Rights provides that all World Trade Organization members, including Malaysia, must adopt measures allowing trademark owners to request that Customs seize imported counterfeit trademark or pirated copyright goods. In Malaysia, this requirement is satisfied by the rules set out in Part XIVA of the Trademark Act.

Although the act provides border measures prohibiting counterfeit trademark goods from being imported into Malaysia, it can be an uphill task for Customs to deal with rights holders that do not always give them the right support and provide detailed information on products, routes and normal shipping patterns. Without such information, it is extremely difficult for Customs to detect counterfeiters; unfortunately, rights holders do not always provide these details.

Another risk faced by trademark owners is that they may be liable for damages if seized goods turn out to be genuine. In addition, the place of origin can be falsified in bonded warehouses in order to reduce enforcement scrutiny; counterfeiters can then be repackaged for re-export.

Although *ex officio* powers are provided for under the Trademark Act, Customs is more concerned with its powers to enforce contraband and arms as governed by the Customs Act 1967. Unless and until the Customs (Prohibition of Imports) Order 1998 prohibits 'counterfeit' items under the First Schedule, Customs will not actively enforce such rights and prohibit these goods from being imported.

### Criminal prosecution

The Trade Description Act is a popular and powerful tool in enforcing trademark rights. The registered proprietor or common law

owner of a trademark may lodge a complaint with the MDTCC, asserting that its trademark has been infringed and/or passed off.

Criminal enforcement in Malaysia is conducted through quasi-criminal proceedings; the provision most commonly used by law enforcers to impose criminal sanctions is Section 3 of the Trade Description Act, which states: "Any person who, in the course of a trade or business (a) applies a false trade description to any goods; or (b) supplies or offers to supply any goods to which a false trade description is applied, shall be guilty of an offence".

Where the infringing mark is identical to the proprietor's mark and there is clear evidence of infringement, owners can pursue an action by lodging a complaint with the MDTCC, which is vested with the power of search and seizure. Following a raid, the MDTCC may prosecute the suspected counterfeiters on the advice of the attorney general's chambers.

Verifications made under the Trade Description Act must take place within one year of a seizure. If the claims are not verified, the MDTCC may refuse to act on subsequent complaints by the same trademark owner. Further, pursuant to Section 19 of the act, prosecution must commence within three years of the offence or one year of its discovery by the prosecutor, whichever is earlier.

If the infringing mark is identical to the proprietor's mark, the MDTCC will commence and conduct raids upon receiving a complaint from the trademark owner. If the unauthorized trademark is not identical to the protected trademark, but closely resembles it, an application for a trade description order must be made at the High Court pursuant to the Trade Description Act. Such orders are made *ex parte* and declare that the unauthorized use of a trademark is a false trade description. A false trade description is an indication that misrepresents, among other things, the source of manufacture or the identity of the manufacturer of the goods.

Criminal prosecution is generally preferred as a remedy against counterfeiters; comparatively, it is an easier process which is quick to implement and offers tangible results, as well as direct engagement with the perpetrators. An individual who is found guilty of an offence under the Trade Description Act is liable to a fine of up to RM100,000 or three years' imprisonment, or both. However, the MDTCC may exercise its discretion to compound the offence. Compounding provides an alternative to criminal

prosecutions where a suitable penalty is imposed. The rights owner may still thereafter elect to commence civil proceedings based on the evidence collected in the raids.

### Civil enforcement

A civil suit is most appropriate when the identity of the offending party is known and its financial worth and assets are more than sufficient to pay out the damages and costs sought by the trademark owner. There are several remedies offered in a civil suit which are not necessarily exclusive and which may form an amalgamated grant by the court. These include:

- ex parte* or permanent injunctions;
- an order for delivery up or destruction of the counterfeits;
- summary judgments; and/or
- damages or an account of profits

There are various types of injunction, the impact and intensity of which vary according to their purpose:

- Interlocutory injunctions may be used to stop counterfeiters from continuing their unlawful trade pending trial;
- Anton Pillar orders allow trademark owners to search for and seize evidence from counterfeiters if it is suspected that they may destroy or dispose of evidence of infringement or passing off; and
- Mareva injunctions, are granted *ex parte* to trademark owners to restrain infringers from dissipating their assets out of the relevant jurisdiction.

A trademark owner may also obtain summary judgment against a defendant where it can offer absolutely no defence against the plaintiff's claims.

Rather than embarking on criminal prosecution or a civil suit at first instance, which may be prohibitively expensive and time consuming, trademark owners can opt for pre-emptive measures such as the following:

- warning notices – publicly asserting its proprietary rights through various media forewarns the industry and public of the owner's seriousness in protecting and enforcing its rights;
- cease and desist letters – warning the wrongdoer to cease and desist from continuing the offending activities is another pre-emptive measure that can be self-funding, as damages and costs may be sought; and
- undertaking agreements – a warning letter or demand notice gives trademark owners the opportunity to enter into

agreements with counterfeiters, which are compelled to undertake not to trade in the said counterfeit goods in lieu of civil proceedings.

### Anti-counterfeiting online

Cyberspace is a counterfeiting haven. Trademark owners that wish to take action against online counterfeiters must rely on the causes of action under trademark infringement and passing off, as there is no specific legislation guarding these rights online.

As the Internet has become the most powerful vehicle for communication and commerce, it is an equally expansive platform for trading counterfeits and trafficking domain names. The Malaysian Network Information Centre is responsible for registering domain names in Malaysia. The governance and administration of disputes over domain names in the country-code top-level domain '.my' are in accordance with the centre's Domain Name Dispute Resolution Policy and Rules.

When registering a domain name, the applicant must state that the domain name applied for does not infringe any registered or unregistered mark in Malaysia. Many domain name disputes have arisen due to the 'first come, first served' rule, as well as the worldwide use of domain names without regard to trademark classes or national registrations.

Malaysia currently has no legislation providing for the liability of internet service providers. The Communications and Multimedia Act 1998 allows Malaysian internet service providers to regulate themselves by voluntarily subscribing to guidelines and procedures under the Content Code as set out by the Content Forum.

This lack of accountability means that there is little discouragement for website hosts or content providers that profit from the online sale or auction of counterfeit products online. Such offences are virtually untraceable due to the non-existent paper trail. Online investigation can also be futile as many counterfeiters alternate between domain names and domain user names in order to avoid leaving any traces. As a result, even though auction websites selling counterfeits in Malaysia are continuously shut down, the number of websites in Malaysia promoting and trading with and in counterfeit products never seems to decrease; in fact, many of the same operators keep recurring as counterfeiters test out alternative ways to bypass the system.

It is hoped that proposed amendments to the Copyright Act 1987 for the inclusion of

internet service provider liability for internet-related offences will address some of these issues in enforcement.

### Preventive measures/strategies

#### Education

It has often been said that if there is no demand, there will be no supply. In Malaysia, counterfeiting is not necessarily viewed as a crime by the public, which does not see anything wrong in purchasing a counterfeit product if it fulfils its purpose, whether as a status symbol or personal flattery. Convincing society that counterfeiting poses social and economic concerns requires education and cooperation by both the government and the private sector. The media is a powerful tool, which is often used to promote social responsiveness to various national issues. The government can combine forces with law enforcement divisions and multinational trademark owners to criticize and censure counterfeited goods through public policy, anti-counterfeiting campaigns and creative educational programmes.

#### Landlord liability

Many of the perpetrators do not operate within self-owned premises. Another way to hinder the spread of counterfeit products would be to hold landlords liable for the actions and activities of their tenants within the scope of property use. Malaysia currently has no specific governing legislation on the landlord-tenant relationship. A landlord may be held liable if its relationship with its tenant can be categorized as one of agent-principal. The concept of vicarious liability under common law can come into play if the landlord has facilitated or been involved in the infringement.

Several IP owners whose rights have been infringed by counterfeiters have adopted a strategy of redirecting their letters of demand (to cease and desist) to landlords of premises where counterfeit products are sold. Statistics reveal that this has proved a fruitful option, as landlords have responded positively by issuing warnings to their tenants, amending the tenancy agreement to include a clause prohibiting the sale of counterfeit products and in some cases revoking the tenancy agreement.

#### IP courts

In 2007 long-awaited specialized IP courts were established. These courts were set up to speed up the prosecution of IP rights violations. Based on statistics from the

courts so far, it appears that anti-counterfeiting matters are being dealt with and disposed off expeditiously.

#### Fiat

IP owners should also lobby for the revival of *fiat*, which can be granted by the attorney general. Under this proposal, IP owners could appoint an advocate to represent them in the prosecution of their criminal case (ie, the advocate, a private person, would step into the shoes of the public prosecutor). This system would enable IP owners to appoint counsel and use their resources, expertise and knowledge to bring infringers to justice, unlike public prosecutors who can lack the necessary technical expertise. Advocates equipped with the knowledge and resources in their field of expertise would certainly have an advantage in prosecuting infringers. This system would also reduce the protracted delay faced by IP owners in the prosecution process.

#### Conclusion

The links between counterfeiting and organized crime makes the fight against counterfeits more pressing for the government. The Malaysian legislature has been continuously urged to devise penalties commensurate with the destruction caused by counterfeiting. [WTR](#)

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