INSLA E-PROCEEDINGS
مقالات المؤتمر العالمي في الشريعة والقانون
E-ISSN: 2735-1742

Vol. 6, No. 1, pp. 64-70 | 2023
INSLA E-Proceedings

PARALLEL IMPORT OF FOOD PRODUCTS, TRADEMARK INFRINGEMENT AND HALAL ISSUES: CASE ANALYSIS OF *GUANGZHOU LIGHT INDUSTRY & TRADE GROUP LTD & ORS VS LINTAS SUPERSTORE SDN BHD [2022] 4 MLJ 339*

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Article history:
Submission date: 1 September 2023
Received in revised form: 30 October 2023
Acceptance date: 7 November 2023
Available online: 10 December 2023

Keywords:
Parallel import, trademark, halal, trademark infringement, passing off, material differences

Funding:
This research did not receive any specific grant from funding agencies in the public, commercial, or non-profit sectors.

Competing interest:
The author(s) have declared that no competing interests exist.

Cite as:
Wandi, S. N. A. (2023). Parallel import of food products, trademark infringement and halal issues: Case analysis of Guangzhou Light Industry & Trade Group Ltd & Ors vs Lintas Superstore Sdn Bhd [2022] 4 MLJ 339. *INSLA E-Proceedings*, 6(1), 64-70.

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ABSTRACT

Parallel import refers to the importation and sale of goods by a third party without the consent of the registered trademark owner in the country concerned. This issue is increasingly relevant in the context of international trade, especially involving food products that are subject to strict local legal requirements including halal requirements in Malaysia. This case study analyses the decision of the case *Guangzhou Light Industry & Trade Group Ltd & Ors v Lintas Superstore Sdn Bhd [2022] 4 MLJ 339* where the Federal Court of Malaysia decided three main issues. These issues include trademark infringement, the parallel import defence and the tort of passing off. The conflict in the law arose when the defendant imported canned food products labeled with the trademark `Eagle Coin' from China for resale in Malaysia without getting permission from the owner or registered user of the trademark. In addition, this study also explores how the courts have applied the `material differences standard' in cases of parallel importation of genuine products where the product does not meet the local labelling requirements of the Food Regulations 1985, the product is not certified as Halal and the physical quality of the product differs. This study believes this is also an important addition to the Malaysian trademark jurisprudence because in particular it helps to strengthen the concept that the trademark right does not lose its effect globally where there is a clear nationally limitation on the packagings using the trademark. Furthermore, this case also highlights the importance of the halal requirements in the determination of material differences in the context of parallel imports, which will provide greater protection to the Muslim consumers and legitimate traders in Malaysia.

Introduction

In the era of rapid growth in international trade, the issue of parallel import of food products has become more and more relevant and complex. It gets more serious when it comes to trademark rights and adherence to local laws and regulations such as halal certification. Parallel import or `gray market goods' is the importation and sale of genuine goods by a third party without the consent of the registered trademark owner in the country. In addition, unauthorized imports may have a number of serious legal consequences even if the goods are genuine and not counterfeit. It can also have more serious consequences if the imported products do not comply with the standards and halal requirements as stipulated by the local laws. Parallel import typically occur when there is a considerable price gap between markets for the same product (Yeong & Associates, 2024). This encourages third party importers to purchase products from the lower cost market and resell them in the higher cost market without the trademark owner's consent. This situation not only puts the interest of the legitimate trademark holders at risk, but also puts the consumers at risk of receiving products that are of different quality, content and meet different standards including halal standards.

The case of *Guangzhou Light Industry & Trade Group Ltd & Ors vs Lintas Superstore Sdn Bhd [2022] 4 MLJ 339* is a significant case that was heard by the Federal Court of Malaysia on 3 June 2022. In this case, the defendant which is Lintas Superstore Sdn Bhd imported canned food products with the `Eagle Coin' trademark into Malaysia from China for resale in its supermarket in the town of Kota Kinabalu, Sabah without seeking the plaintiff's permission. This case was a major milestone in Malaysia's trademark regime. It is because for the first time, the court decided that the `material difference test' should be used as a guideline on whether parallel imports can be prohibited. In this context, it is one of the main reasons proving that these parallel imported products are different from the products allowed to be sold in the Malaysian market. It is because these products do not comply with the halal requirements set by the Food Regulations 1985.

Therefore, the main focus of this study is to concentrate on the decision made by the Federal Court in the case of *Guangzhou Light Industry & Trade Group Ltd & Ors vs Lintas Superstore Sdn Bhd [2022] 4 MLJ 339*. There are also three aspects covered in this study which are infringement of trademark, the defence of parallel import and halal issues in relation to the material difference test.

Case Facts

The Parties Involved

The case of Guangzhou Light Industry & Trade Group Ltd & Ors vs Lintas Superstore Sdn Bhd [2022] 4 MLJ 339 has three plaintiffs and one defendant. The first plaintiff (P1) is Guangzhou Light Industry & Trade Group Ltd which is a canned food manufacturing company and registered owner of the `Eagle Coin' trademark in China and Malaysia. P1 is the global owner of the trademark and has exclusive rights to use the mark (Pintas IP Group, 2022). The second plaintiff (P2) is a subsidiary of P1 engaged in the business of food product production, importation and exportation including in canned food. P2 has been asked to be the operator of the `Eagle Coin' trademark and selling products with the mark outside of China. The third plaintiff (P3) is a malaysian company based in Sabah. Since march 2008, they have been the only registered user and authorized distributor of canned food products with the `Eagle Coin' trademark in Malaysia. P3 have rights as a registered user of the trademark under section 48(5) of the Trade Marks Act 1976 corresponding to the rights of the registered owner of the trademark within the scope of the registration. Meanwhile, the defendant in this case is Lintas Superstore Sdn Bhd. It is a company that operates a supermarket business in the city of Kota Kinabalu, Sabah and sells various goods among which food products are among.

Background of the Dispute

This case is based on defendant's use of a trademark that was similar to the 'Eagle Coin' trademark in his business activity of selling canned fried dace. P1 and P2 are infringing products as they have only made the products in question for Chinese sale and not Malaysian sale. It is clearly written on the product package that this is only available in China.

More specifically, the defendant purchased the copyright infringing goods at the P2 convenience store in China through an agent. A Chinese national who represents the defendant went to the P2 convenience store in China to buy the goods on 28 of August 2016. Instead of the plaintiff's delivery systems and the plaintiff's approved delivery services, the defendant used its own company's transportation to send the goods to Sabah.

The goods imported by the defendant are very different from the goods that P3 allowed to sell in Malaysia. The products contain various elements which include their fish content percentage, quality and packaging which the labels on products brought in by the defendant fail to comply with the labelling requirement in the Food Regulations 1985 that says the food labelling has to be written either in Malay or English language according to specified standards. Furthermore, the critical difference is that the product imported by the defendant failed to meet halal compliant compared to P3's products which have been certified halal for their Malaysian market products.

Court Proceedings

The plaintiffs brought two main causes of action against the defendant which include trademark infringement and the tort of passing off. However, the defendant responded to the claims of the plaintiffs and denied both claims. The defendant supported its case through the parallel import defense which section 40(1)(dd) of the Trade Marks Act 1976 provides because P2 allegedly approved the product distribution by selling these items at his Chinese grocery store.

The High Court ruled in favor of the plaintiff on both claims. The trial judge determined that the defendant purposefully violated the trademark rights and the parallel import defense failed because the defendant did not show they obtained either direct or indirect authorization from the plaintiff to bring these products into Malaysia for commercial distribution. The High Court also established that the defendant committed misleading conduct because they confused customers through their identical trademark usage which combined with unapproved product alterations and non-halal compliant products. In addition, The High Court also dismissed the defendant's counterclaim.

The Court of Appeal accepted the defendant's appeal which canceled the High Court's decision without creating any official explaination for their ruling. The Court of Appeal panel based their decision on a quick review of oral statements which showed the defendant purchased 1920 cans to establish the plaintiff gave implied consent. Due to dissatisfaction with the Court of Appeal's decision, the plaintiffs applied for and received permission to bring their case to the Federal Court after they challenged seven different legal points. The Federal Court under Chief Justices, Abang Iskandar, Zawawi Salleh and Zabariah Yusof supported the plaintiffs' appeal through a unanimous decision which removed the Court of Appeal's ruling and brought back the original High Court judgement.

Legal Issues Arising from the Case

Trademark Infringement

The first issue decided in this case is whether the defendant had infringed the registered trademark `Eagle Coin'. In Malaysia, trademark rights are granted under the Trade Marks Act 1976 (TMA 1976). The owner of the registered trademark has the exclusive right to use the mark in trade under the Section 35(1) of the TMA 1976. Meanwhile, section 38(1) states that if someone who is not registered owner or authorized user of the trademark uses the same or a confusingly similar mark in such a way that it may mislead the public in the course of trade, it is considered to be trademark infringement (Guangzhou [2022] 4 MLJ 339, para 76-77). Moreover, section 48(5) of the TMA 1976 also provides protection for registered trademark users, where the use of a trademark by a registered user within the limits of its registration is considered as use by the owner of the registered trademark itself (Guangzhou [2022] 4 MLJ 339, para 78).

Parallel Import Defense and the Exhaustion Doctrine

The second issue is whether the defendant's defense of parallel importation under section 40(1)(dd) of the TMA 1976 will be successful. Section 40(1)(dd) of the TMA 1976 were introduced by Amendment Act A881 in 1994. This provision stipulates that once a registered proprietor or user has granted express or implied consent to another party for the use of a trademark, the proprietor loses the right to control subsequent transactions involving goods (Guangzhou [2022] 4 MLJ 339, para 86-87). Therefore, an essential requirement of this defense is that express or implied permission of the registered owner or registered user of the trademark exists.

In this case, the Federal Court clarified the Malaysian position on the doctrine of exhaustion of rights. The court held that implied consent can only be inferred if the facts and circumstances demonstrate clearly and unequivocally that the trademark owner has waived their right to object to the marketing of the goods within the relevant jurisdiction.

In addition, the court adopted the material differences test utilized in US jurisprudence for the Malaysian context. Under this standard, the presence of even a single material difference is sufficient to indicate that the gray goods may mislead or confuse consumers about the nature or quality of the product (Guangzhou [2022] 4 MLJ 339, para 142-143).

Halal Issue as a Material Difference in the Context of Parallel Imports

The Food Act 1983 in Malaysia provides the halal requirements for food products in the Food Regulations 1985. This Act aims to protect the public from any elements that could harm health and from fraud in the preparation, sale and use of food or anything related to it (Alias Azhar & Abdul Wahab, 2017). Malaysia has a vast legal system for halal which meeting the criteria of halal is mandatory condition for food products entering the market in Malaysia. These requirements are not only religious but also consumer protection requirements to ensure food products marketed in the Malaysian market are safe and comply with the established standards (Hashim et al., 2022).

Tort of Passing Off

The question that arises from the third issue in this case is whether the defendant has committed the tort of confusion against the plaintiff. The origin of tort of confusion is based on misrepresentation which occur when a trader is protected from assumption of the misrepresentation of other traders by confusion (Gowri, 2023). In this matter, the Federal Court embraced the three classic elements of the tort of passing off as stated in the case Reckitt and Colman Products Ltd v Borden Inc and others [1990] 1 All ER 873. The first element is that the plaintiff possesses goodwill connected to his business in relation to the mark used. The second element is that the defendant has made a misrepresentation to the public by using a mark that is likely to confuse or deceive the public into believing that the defendant’s goods are those of the plaintiff. The third element refers to the possibility that the plaintiff may suffer harm as a result of the defendant's misrepresentation (Guangzhou [2022] 4 MLJ 339, para 25). Additionally, confusion claims have a higher threshold for the plaintiff than claims of registered trademark infringement which require them to provide more active and complex proof of ownership and damage.

However, the judge determined that the plaintiff proved all three elements of the tort of confusion. In terms of reputation, P3 being the sole authorized distributor had developed a good reputation over the distribution of Eagle Coin products in Malaysia that were Halal compliant since March 2008. As for the element of obvious fault, the defendant mislead the public into believing that the fried dace products labeled with the trademark `Eagle Coin’ sold by the defendant was the same as those marketed by P3. This was made worse by the fact that, although the defendant’s products all emanated from the same source, they were not the same as the plaintiff’s products as the defendant’s products did not comply with the legal requirements of Malaysia (Guangzhou [2022] 4 MLJ 339, para 24). As for the element of damage, the Court found that P3’s reputation would be affected if Malaysian customers were confused into believing the defendant’s product was P3’s product owing to the identical trademark. To this end, the plaintiff was able to prove his claim in the tort of confusion (Guangzhou [2022] 4 MLJ 339, para 26-27).

Federal Court Decision

Response to the Issue of Authorization

The Federal Court unanimously allowed the plaintiff’s appeal and set aside the Court of Appeal’s decision restoring the High Court’s decision on 3rd June 2022. The ruling is a conservative one on the question of parallel imports which was once widely accepted in Malaysia. The Federal Court has opted to answer three of seven legal questions put forth by the plaintiff in his Federal Court proceedings with the rest being declined for reasons.

a) Worldwide Exhaustion of Trademark Rights

The first question brought up by the plaintiff was whether the trademark rights of the brand owner would lapse worldwide if the product was sold only in one country or region, as clearly stated on the product label "to be sold in China only". The Federal Court answered this question in the negative. Furthermore, the court noted that the plaintiff's rights in the trademark did not get exhausted either nationally or internationally because the plaintiff did not give the defendant a licence to resell the mark in Malaysia (Guangzhou [2022] 4 MLJ 339, para 136).

b) The Material Differences Test

The second question is whether parallel importation sales in Malaysia can be prevented when the goods sold and resold are different from the goods that are authorised by the trademark owner for sale in Malaysia. The Federal Court therefore replied in the affirmative to that question. However, parallel import sales may be restricted if the goods are not the same to the extent that there are differences in content, quality, packaging or if it is not halal compliant (Guangzhou [2022] 4 MLJ 339, para 144-147). This is also consistent with US precedent like Nestle v Casa Helvetia and Lever Bros v United States (Kuek et al., 2022).

c) Purchase Quantity as Implied Consent

The third question that came up was whether the amount of the goods purchased would be considered as being consented to be sold for resale in Malaysia by the manufacturer or the brand owner. The Federal Court decided this negatively. It is because the Court found that a bulk purchase of goods does not warrant implied permission from the manufacturer or brand owner to sell goods purchased out of Malaysia for resale in Malaysia. Besides that, the Court also noted there is clear territorial on the packaging of goods purchased by the defendant from China and to presume such purchase alone meant permission to import such goods into Malaysia for resale was unreasonable.

Refusal to Respond to Questions (d) to (g) Concerning Authorization

The Federal Court did not provide answers to the questions of truth (d) to (g) as the Court provided different reasons for not answering each question. In relation to truth question (d), the Court did not provide an answer based upon the fact that the court found the question to be irrelevant as the answer to truth question (c) was already negative. Thus, the Court eliminated any possibility of finding valid truth for the registered owner or registered user of the trademark in relation to goods sold outside the registered use limitations (Guangzhou [2022] 4 MLJ 339, para 153-54).

For question (e), (f) and (g), the Court chose not to answer them because the issues regarding the compliance with food laws in relation to parallel imports were not raised before the High Court judge and that the trial judge was silent on the issue (Guangzhou [2022] 4 MLJ 339, para 155-156).

Final Decision of the Federal Court

The Court of Appeal was found wrong in overturning the High Court's decision by the final ruling of the Federal Court. The High Court actually was right in allowing the plaintiff's claim for trademark infringement and confusion and in finding that the defendant's parallel import defence was unsustainable. Second, the Court ruled that the plaintiff's trademark rights were violated and that the defendant had misled the public into believing the fried dace products bearing the 'Eagle Coin' trademark that he sold were identical to products marketed by P3. Third, the plaintiff's appeal was accepted in the appeal to the Federal Court and the High Court's decision was overtuned on its own merits with costs of RM100,000 here and below which must be paid by the defendant to the plaintiff.

Implications of the Court's Decision

Implications for Trademark Proprietors

This ruling will give trademark owners and local exclusive distributors better legal protection with respect to their exclusive rights under the statutory registration system. In the past, sole distribution agents frequently suffered commercial losses because of unwanted gray market goods taking advantage of the exhaustion of rights doctrine. The total expected value in annual damage to the authorized brand throughout the world is estimated at billions of dollars. Not only are there damages in the form of loss in business value, but in the form of negative user experiences which affects the brand's name and reputation (International Trademark Association [INTA], 2024).

Due to this case, there are now three main measures trademark owners can take to better protect their interests. Firstly, they have to ensure that there are territorial restrictions on the product packaging. Secondly, they must ensure the products sold in the Malaysia market comply with all of the local requirements including Halal standards. While the third way is they have to register trademarks as well as appointing a legally registered sole distributor in Malaysia (Shanmuganathan et al., 2023).

Implications for Importers

This ruling places greater responsibility on importers to ensure that goods imported are correctly authorised from the trademark owner and meet Malaysian legal requirements. This is because the purchase of large quantities are not considered an implied assent by the trademark owner. This means that importers are no longer permitted to simply assume that the products were legally purchased in the country of origin. They also must ensure that products imported comply with labelling requirements, food safety standards and other regulations in Malaysia. Therefore, this reflects the principle that the right to parallel importation does not exist in an absolute sense but depends on the consent of the trademark owner and the interests of consumer protection (Samaranayake, 2023; Guo, 2024).

Implications for Consumers

The Court decisions are for the consumer to be protected from confusion regarding the nature, quality and compliance of products sold in the Malaysian market. The Courts also help in ensuring the consumers get products that meet their expectations of a brand by preventing the sale of materially different products. There is a research on parallel importing that show that brand loyalties can be lost and consumer confusion can be caused by minor changes in formulation, packaging and product information (Dobrin & Chochia, 2016).

Implications for the Malaysian Market

Based on the court's decision, the trade environment remains organized and industry players are given legal certainty at the sime time. This is because the concept of worldwide exhaustion was rejected by the court. It was also noted that trademark rights cannot be lost solely by reason of marketing in another country. This decision will give more advantages to authorized distributors who have put in a lot of effort in marketing, complying with regulations and establishing a brand presence in Malaysia. In addition, it ensures the safety of locally produced products according to the Malaysian legal framework and consumer requirements. While the method may affect on freedom of parallel importation, it creates greater clarity in the market and helps preserve the integrity of the country's trademark system (Sujatmiko, 2014).

Conclusion

To sum up, the Federal Court's findings on the protection of trademark rights under Malaysia's parallel importation theory were stated in Guangzhou Lights Industry & Trade Group Ltd & Ors v Lintas Superstore Sdn Bhd [2022] 4 MLJ 339. The Court pointed out that the rights of a trademark owner will not automatically disappear worldwide if a product has been sold in their country of origin. Instead, the rationale for parallel importation can only be invoked when there is informed or implied consent from the trademark holder.

In this case, it was found that the imported goods were only for sale to the Chinese market and the defendant could not prove that there was such consent. They also were found to be very different from the products legally sold in Malaysia in terms of content, quality and packaging. The court also noted that the product failed to meet the standards required for food labelling under the Food Regulations 1985 including those for halal factors which could mislead consumers and have a negative impact on the reputation and goodwill of the trademark owner. Therefore, the decision highlights the importance of consumer protection provisions as provided in the local laws. It is also reinforces the rights of the owner or authorised distributors to control the distribution of the product in the Malaysian market. Not only that, it also provides a balance between trade interests, intellectual property rights and market integrity in Malaysia.

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