

## **Court of Appeal: Licensee is entitled to sue for Infringement jointly with Registered Design Owner**

By Dave A Wyatt

Malaysia's Patents Act 1983, Industrial Designs Act 1996 and Trademarks Act 2019 all contain provisions under which a licensee of the registration owner may take action for infringement in their own name in certain prescribed circumstances. These provisions reflect the commercial reality that an infringement may often impact a licensee as much, if not more, than the IP owner in terms of lost sales and market share versus the owner's potential loss of royalties or other licensing income. In such a situation, fairness dictates that the licensee should not be at the mercy of the IP owner's decision as to whether to pursue the infringer.

Before reviewing some of the case law on the rights of a licensee to take action for infringement, we shall set out the statutory provisions to the extent relevant to this discussion.

### Patents

#### Section 59 – Infringement proceedings

(1) The owner of the patent shall have the right to institute Court proceedings against any person who has infringed or is infringing the patent.

#### Section 61 – Infringement proceedings by licensee and beneficiary of compulsory licence

(1) For the purposes of this section, "beneficiary" means

- (a) any licensee unless the licence contract provides that the provisions of this subsection do not apply or provides different provisions;
- (b) the beneficiary of a compulsory licence granted under section 51.

(2) Any beneficiary may request the owner of the patent to institute Court proceedings for any infringement indicated by the beneficiary, who shall specify the relief desired.

(3) The beneficiary may, if he proves that the owner of the patent received the request but refuses or fails to institute the proceedings within three months from the receipt of the request, institute the proceedings in his own name, after notifying the owner of the patent of his intention but the owner shall have the right to join in the proceedings.

### Industrial Designs

#### Section 33 – Infringement proceedings

(1) The owner of a registered industrial design shall have the right to institute legal proceedings against any person who has infringed or is infringing any of the rights conferred by the registration of the industrial design.

(4) For the purposes of this section, "owner of a registered industrial design" means the registered owner and includes an assignee, a licensee or the beneficiary of a compulsory licence granted under section 27; but if any proceedings are instituted by a person other than the registered owner, it must be proved that that person had made a prior request to the registered owner to institute proceedings for the infringement complained of by him and that the registered owner had refused or failed to

institute the proceedings within three months from the receipt of the request, without prejudice however to the registered owner's right to join in such proceedings.

## Trademarks

### Section 70 – Rights of licensees in case of infringement

(1) This section has effect with respect to the rights of a licensee in relation to infringement of a registered trademark except for an exclusive licensee under subsections 71(1) and (2), the licensee has the right to bring infringement proceeding in his own name.

(2) A licensee shall be entitled, unless his licence or any license through which his interest is derived, provides otherwise, to call on the registered proprietor of the trademark to take infringement proceedings in respect of any matter which affects his interests.

(3) For the purposes of subsection (2), if the registered proprietor refuses or does not take infringement proceedings within two months after being called upon, the licensee may bring the proceedings in his own name as if he were the registered proprietor.

(4) Where infringement proceedings are brought by a licensee by virtue of this section, the licensee may not, without leave of the Court, proceed with the action unless the registered proprietor is either joined as a plaintiff or added as a defendant.

(7) In infringement proceedings brought by the registered proprietor, any loss suffered or likely to be suffered by a licensee shall be taken into account and the Court may give such directions as it thinks fit as to the extent to which the plaintiff is to hold the proceeds of any pecuniary remedy on behalf of a licensee.

(8) The provisions of this section apply in relation to an exclusive licensee if or to the extent that he has, under subsections 71(1) and (2), the rights and remedies of an assignee as if he were the registered proprietor of the trademark.

### Section 71 – Exclusive licensee having rights and remedies of assignee

(1) An exclusive licence may provide that the licensee shall have, to such extent as may be provided by the licence, the same rights and remedies in respect of matters occurring after the grant of the licence as if the licence had been an assignment.

(2) Where or to the extent of the provision referred to in subsection (1), the licensee shall be entitled, subject to the provisions of the licence and this section, to bring infringement proceedings, against any person other than the registered proprietor, in his own name.

Comparing the respective provisions for patent, industrial design and trademark, one can see straightaway that there is a common theme, though with both subtle and substantial differences.

The common theme is that the right to sue for infringement vests primarily with the registered proprietor. Nevertheless, a licensee may ask the proprietor to take action for infringement. If the latter refuses or fails to do so within a prescribed timeframe, the licensee may initiate action in their own name. In the case of patents and trademarks, the licensee's right to sue in these circumstances may be contracted out of under the terms of the licence agreement. If an action is initiated by a licensee, the proprietor shall be added as

a nominal defendant or co-plaintiff and can choose whether to actively participate in the proceedings.

The provisions of the Trademarks Act 2019 are the most comprehensive of all. An exclusive licensee may be accorded rights almost on par with an assignee of the mark. Section 70(7) also recognizes a licensee's commercial interest in a trademark infringement suit, even when the licensee is not a party to the proceedings. The Court may give directions that the proprietor account to the licensee for monetary relief awarded as a result of the suit.

Further discussion of the trademark provisions is beyond the scope of this article. Since the Trademarks Act only came into force in late 2019, we shall move on to look at the patent and design case law.

*Premier Products Co Ltd & Anor v Zamrud Fibre Industries (M) Sdn Bhd & Anor*<sup>1</sup>

This patent infringement suit is possibly the earliest case in which the entitlement of a patent licensee was considered under the above-mentioned provisions of the Patents Act 1983. The first plaintiff as patent owner and second plaintiff as its licensee sued the defendants for patent infringement. At trial, there were essentially four issues to be determined: whether the first plaintiff was the rightful owner of the patent, the locus standi of the second plaintiff to join in the proceedings, the validity of the patent, and the question of infringement.

Quoting from the High Court's judgement on the second issue:

It is quite clear under section 59(1) of the Act that it is the owner of the patent who shall have the right to institute Court proceedings for infringement but a licensee may, under section 61(2) of the Act, request the owner of the patent to do so. Only if the owner had refused the request or failed to institute the proceedings within three months from the receipt of the request, as provided in section 61(3) of the Act, can the licensee institute the proceedings in his own name after notifying the owner but the owner shall have the right to join in the proceedings. There is no evidence here that any of these steps had taken place except for a letter dated the 23rd August 1993 from the first plaintiff authorising the second plaintiff to institute infringement proceedings which is not exactly in conformity with the provisions of the Act. In effect the licensee cannot institute the proceedings and can do so only if the owner has failed to do so within three months of the licensee's request. In the consequence, the second plaintiff in fact has no right to be a party to the action.

This decision suggests that Section 61 is a complete code on the circumstances in which a patent licensee may sue for infringement, and that the evidence, in support of all the conditions of Section 61 having been met, needs to be solid. Overall, *Premier Products* was clouded by question marks over the first plaintiff's entitlement to the patent and even whether the second plaintiff was properly a licensee under the patent.

Ultimately, the High Court determined that the first plaintiff was not the rightful owner of the patent, due to a lack of evidence of derivation of title from the inventor. The Court was also not satisfied that the second plaintiff was a licensee of the first plaintiff due to the reliance of the parties on a transfer of technology agreement and royalty agreement, neither of which made any reference to the Malaysian patent. In any event, the patent was held to be invalid due to lack of novelty and inventive step.

*Fukuyama Automation Sdn Bhd v Xin Xin Engineering Sdn Bhd & Anor*<sup>2</sup>

In this patent infringement case, the Malaysian plaintiff claimed to be the patent owner by virtue of an assignment from the original Japanese applicant. The plaintiff's ownership of the patent by virtue of the purported assignment was challenged. Quoting from the judgement:

In the instant case, the assignor (Fukuyama) only intended to give the assignee (plaintiff) a licence and right to manufacture the machinery which had been patented directly within the territory of Malaysia. The assignor still retained and controlled ownership of the Malaysian patent. The assignor also controlled the serial numbers of each machine manufactured and right to conduct periodic audits. For the plaintiff to claim absolute assignment, the assignment must be absolute, not conditional (citation omitted). Furthermore, the plaintiff failed to show any document satisfying the preconditions of s 61 of the Act that it had requested the owner of the patent, Fukuyama, to institute the proceedings nor was there proof that Fukuyama had refused to institute proceedings upon receipt of the plaintiff's request.

Once it was established that the purported assignment was conditional and more in the nature of a licence, the onus was on the plaintiff to prove that the conditions of Section 61 had been met, as to which there was no evidence whatsoever. The defendants' counterclaim for invalidation of the Malaysian patent also succeeded, based on the prior-published corresponding Japanese patent.

*Kingtime International Ltd & Anor v Petrofac E&C Sdn Bhd*<sup>3</sup>

Similar to *Premier Products* the first and second plaintiffs in *Kingtime* were the patent owner and their licensee. Jointly, the plaintiffs sued the defendant for infringement of two Malaysian patents. Among other defences, the defendant contended that the second plaintiff, as licensee of the first plaintiff, had no locus standi to institute a patent infringement suit. The High Court agreed, with the judge quoting the various provisions of the Patents Act that confer rights on a patent licensee and noting that the right to claim for infringement was conditioned upon the circumstances set out in Section 61 being met. The judge further relied on the above *Premier Products* and *Fukuyama* decisions in support of this position.

*CMN International Sdn Bhd & Ors v Dart Industries Inc. and another appeal*<sup>4</sup>

In this consolidated case, the Court of Appeal reviewed the lower court's decision in two design infringement suits. In the High Court, the first plaintiff was the owner of two registered designs and the second plaintiff was their sub-licensee. The judge determined that the second plaintiff had no locus standi in the suits, and among other matters, this aspect of the decision was the subject of appeals.

The Court of Appeal upheld the lower court's finding of design infringement based on the standard of obvious imitation, and reversed on the standing of the second plaintiff which it held was properly a party to the suit. The appeal court disagreed with the lower court's judgement on the licensee's standing on essentially three separate grounds:

First, the lower court had drawn a distinction between a licensee and a sub-licensee which the Court of Appeal determined was not justified.

Second, the High Court's interpretation of the interplay between the two limbs of Section 33(4) of the Industrial Designs Act 1996 was flawed.

Third, the reliance on the provisions of the Patents Act, and indeed on the same judge's conclusion in the *Kingtime* case was not justified, because each statute had its own distinct wording and the design law provisions were clear enough and capable of interpretation independently.

The first issue, relating to the second plaintiff being a sub-licensee was dealt with in depth by the Court of Appeal but consideration of that aspect is outside the scope of this article.

As for the interpretation of Section 33(4), quoting from the Court of Appeal's judgement:

Further in the judgment, the learned judge constructed section 33(4) IDA by distinguishing the 1st limb and 2nd limb and held that the 1st limb is subject to the 2nd limb. He said this is clear from the use of the word "but" in the 2nd limb. Accordingly, a licensee can only file a RID infringement suit if the 2nd limb is satisfied. A contrary interpretation will render redundant the 2nd limb. We did not agree. It is clear that section 33(4) IDA has two limbs which are separated by semi-colon. In our view, the 1st limb expands the definition of 'owner' for the purposes of conferring a right to bring an action under the section to include, in addition to the registered owner, an assignee, a licensee or beneficiary of a compulsory licence.

As we had determined earlier, 2nd Plaintiff is a licensee and therefore obtains a right to sue under the 1st limb. The 2nd limb (after the semi-colon) is only procedural, and applies to situations where an action is commenced by a person other than the registered owner and without the presence of the registered owner. This present action however was commenced by the registered owner, the 1st Plaintiff and therefore falls outside the scope of the 2nd limb.

Finally, on the third issue the appeal court found the learned judge's reliance on his own judgment in *Kingtime* (which itself was based on *Premier Products* and *Fukuyama*) was misplaced as these cases turned on the wordings of Section 61 of the Patents Act 1983 which is a specific provision provided for patent infringement proceedings by a licensee and beneficiaries of a compulsory licence.

Quoting from the judgement:

It is indisputable that the wordings of sections 61(1), 61(2) and 61(3) of the PA differ significantly from section 33(4) of the IDA. The structure and relationship of the provisions is completely different from Section 33(4) IDA. Whereas (as discussed above), Section 33(4) IDA's first limb confers a right of action on licensees and other beneficiaries before the 2nd limb introduces a procedural limitation, there is no similar provision in section 61 of the PA. Instead, the right of a beneficiary to take action is reached only via the gateways of subsections 61(2) and 61(3) PA successively. The wording found in section 61(2) of the PA is altogether omitted from the IDA, which is a later Act.

The 2nd limb of Section 33(4) of the IDA by comparison is expressed so as to place a procedural restriction which cuts down the prima facie right of all beneficiaries to sue which is conferred by the 1st limb. It appears therefore that instead of giving meaning to the clear wordings of Section 33(4) of the IDA the learned judge had imported into it a meaning that was derived from Section 61(1) of the PA, despite the obvious differences in structure and wording between the two provisions.

In our view, the wordings of Section 33(4) of the IDA were perfectly clear and unambiguous and it should not be misinterpreted or assigned with another meaning.

In conclusion, the perceived common theme in the patent, industrial design and trademark acts in Malaysia on the rights of licensees must not detract from the specific wording of each

statute. The Industrial Designs Act 1996 provides for an expanded definition of the “owner” of a registered design to include a licensee, and the conditions in the second limb of Section 33(4) do not apply when the registered owner files the suit and the licensee merely joins along as a co-plaintiff.

The Court of Appeal’s reference to the limited gateways through which a patent licensee may acquire the right to take action for infringement suggests the position is less favourable than under design law. However, the second plaintiff did not appeal the *Kingtime* decision, so there is no higher court ruling yet on the right of a patent licensee to jointly file suit alongside the patent owner.

References:

1 [1994] MLJU 153

2 [2014] 6 MLRH

3 [2018] MLJU 1840

4 [2020] MLJU 903

Disclaimer: The author acted as one of the expert witnesses for the defendants in the *Fukuyama* case.