

Kuala Lumpur Regional Centre for Arbitration
Kuala Lumpur, Malaysia

Chelsea Tea Company

(Claimant)

v

Almond Tea Company

(Respondent)

Memorial for Claimant

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*Jack Wills Ltd v House of Fraser (Stores) Ltd [2016] EWHC 626 (Ch), [2016] All ER (D) 89
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Sinma Medical Products (M) Sdn Bhd v Yomeishu Seizo Co Ltd ([2004] 4 Malayan Law Journal 358),

Statement of Jurisdiction

Chelsea Tea Company (CTC) (hereinafter “Claimant”) has submitted the present contractual dispute before the Kuala Lumpur Regional Centre for Arbitration (hereinafter “KLRCA”), pursuant to the terms of the arbitration agreement between the Parties and Rule 1(1) of the Rules.¹

of Arbitration of the KLRCA, to be read together with Article 1 of the UNCITRAL Arbitration Rules 2010. The Parties shall accept any Judgment of the Tribunal as final and binding upon them and shall execute it in its entirety and in good faith.²

¹ KLRCA i-Arbitration Rules as produced by the Kuala Lumpur Regional Centre for Arbitration; KLRCA Arbitration Act 2005 (Revised 2011)

² UNCITRAL MODEL LAW ON INTERNATIONAL COMMERCIAL ARBITRATION

Questions Presented

What is the applicable law that should be referred to in this dispute?

Whether or not ATC has breached the Agreement by distributing Sailor's Ceylon affixed with the ATC mark in Malaysia

Whether or not ATC's use of the word CEYLON in respect of its tea products is misleading

Whether or not ATC's use of the ATC Mark amounts to trademark infringement and/ or passing off.

Statement of Facts

The claimant; Chelsea Tea Company (CTC) was incorporated in Sri Lanka in 1965. The company was in the business of manufacturing “Ceylon Tea” under the brand name “CTC CEYLON”.

The respondent; Almond Tea Company(ATC) (hereinafter referred to as the “Respondent”) is a company of Singaporean origin .

Sri Lankan Tea Board (SLTB), a statutory body which is the apex regulator and administrator of the Sri Lankan tea industry permitted the Lion Logo to be affixed to the labels and packaging of tea grown and manufactured entirely in Sri Lanka by approved traders if it meets the quality standards stipulated by the SLTB.

The SLTB which had obtained the trademark registrations for the Lion Logo in many jurisdictions of the world also the registered proprietor of the Lion Logo in Malaysia. However, the SLTB did not have exclusive rights over the words, “CEYLON TEA” and “SYMBOL OF QUALITY” contained in the Lion Logo.

The claimant, an entity that belonged within the SLTB has obtained permission from the latter to use the Lion Logo on CTC CEYLON products in Malaysia.

Marvan Ranatunga, the Chairman of the Board of Directors of CTC and Philip Chan, the Managing Director of ATC met each other during a holiday in Malaysia.

Inspired by the knowledge Chan possessed on the Malaysian Tea Industry, Ranatunga decided to appoint ATC as the exclusive distributor of CTC CEYLON in Malaysia.

However, owing to the requirement of having to cease the sale of all other tea products in Malaysia, Chan was not keen to accept Ranatunga's offer. Consequential to losing a game of golf to Chan, Ranatunga had to concede to Chan's rejection of the offer.

Nevertheless, Ranatunga approached Chan yet again after two months of their first meeting upon learning that a Fungal disease had devastated the tea plantations from which ATC sourced its leaves.

The Respondent was appointed as the Exclusive Distributor for the products of the Claimant in Malaysia through a Distribution Agreement (hereinafter referred to as the "Agreement") on the 20th October 2008. On the lapse of five years, if not renewed by the two parties, the Agreement would terminate on the 20th of October 2013.

Such appointment of the Respondent proved to be beneficial as the total profits from sales of CTC CEYLON in Malaysia increased every year, exceeding the targets set by the Claimant and by 2012 constituted approximately 35% of the global net revenue of the Claimant.

The Agreement expired as stipulated on the 20th October 2013 and was not renewed as by then, the Claimant had set up its Southeast Asian Headquarters in Kuala Lumpur.

In March 2015, the Claimant became aware that the Respondent had been growing and manufacturing tea in China and distributing the product as SAILOR'S CEYLON in Malaysia since 2012.

The Agreement between the parties categorically stated that the Respondent was barred from being concerned or interested either directly or indirectly in the manufacture or distribution in the territory of any goods that compete with the Claimant's products, affixed with the Trade Marks or any other arguably similar mark in the territory.

The Claimant wrote to the Respondent claiming damages for the breach of Agreement and demanded the Respondent to cease the use of the ATC Mark on packaging and the word “Ceylon” to describe their tea.

The Respondent denied any such breach of Agreement and asserted that they had every right to use the ATC Mark and the word “Ceylon” for their marketing purposes.

Summary of Pleadings

As the Agreement has not explicitly demarcated the applicable or governing law to the dispute the Arbitral Tribunal shall decide what law should be referred to in this dispute.

By the application of the principle of conflict of laws and established thinking and trends in International Arbitration, it can be deduced that the applicable law in resolving the dispute at hand is Malaysian Law.

However the procedural law that will be followed by the arbitrators in hearing the dispute will be Sri Lankan law as the seat of Arbitration is Sri Lanka.

The question of whether there has been a breach of the Agreement by the Respondent is articulated by observation of the various clauses contained in the Agreement itself that have been violated by Respondent.

Categorically, clause numbers; 4.1 and 4.2 are of significance. Furthermore, clauses 7.1,7.6.7, 7.6.8, 9.3.3, 9.3.7 and 19.2 have been directly breached by the Respondent. The facts of the case and the clarifications provided together with the clear indications of breach of Agreement lead to the conclusion that the Respondent's actions in relation to respecting and abiding by the Distribution Agreement

The Claimant argues that the Respondent's use of the word CEYLON on its teas products is likely to deceive an average consumer about the main characteristics of the product and lead him to make the choice to ultimately purchase the Respondent's product, whereas his original intention was to purchase the Claimant's product.

The use of a Mark that is very similar to the Lion Logo used by the Claimant together with the aforementioned use of the word "CEYLON" on its packaging on two different products that were of different quality standards is argued to be misleading in its true sense.

The Claimant brings action against the infringement and passing off of trademarks; registered by the Claimant and unregistered respectively.

The Lion Logo is a registered trademark and the words “CTC CEYLON” is an unregistered trademark. The Claimant argues with respect to both the use of the ATC logo which is very similar to that of the heraldic lion insignia owned by SLTB and the use of the word “CEYLON” which is part of the Claimant’s trademark ; “CTC CEYLON”

The Claimant thereby pleads for the award of damages suffered by the Claimant due to the unjust conduct of the Respondent and injunction orders restraining the Respondent from using the name “SAILOR’S CEYLON”, the ATC’s Logo, or any other name or mark containing the word ‘CEYLON’ or a lion device if its tea does not originate from Sri Lanka, an order that parties can only refer to tea grown and manufactured entirely in Sri Lanka as “Ceylon Tea” and an order directing ATC to discontinue the sale of its products described as ‘Ceylon Tea’ and to recall all such products from the market.

Pleadings

A.What is the Applicable Law that should be referred to in this dispute?

Regarding the applicable law for the arbitration, when the parties have failed to choose a law governing the contract; arbitration rules and laws uniformly provide that the arbitrators shall make this determination, and generally give them broad discretion to do so.

Art.35 of the Rules provides that the arbitral tribunal shall apply the rules of law designated by the parties; failing such designation by the parties, the arbitral tribunal shall apply the law, which it determines to be appropriate. [The Rules, part II Section IV, Art.35, 1] In this case, the parties failed to designate the rules of law, therefore the appropriate laws have to be discussed.³

I.Substantive law

Traditionally, when arbitrators have had to determine the law of the contract, they have applied conflicts of laws rules to determine which substantive law is most appropriate. Normally, they do this by considering various factors that connect a particular State law to the transaction. The case at hand presents a clear contract between the Claimant and the Respondent and thus there is no ambiguity in relation to the applicability of the principle of conflict of laws.

In this case the Claimant is a Sri Lankan entity. The Respondent is a Singaporean entity that carried out business in Malaysia. The Agreement was signed and all operations pertaining to

³ KLRCA i-Arbitration Rules as produced by the Kuala Lumpur Regional Centre for Arbitration
KLRCA Arbitration Act 2005 (Revised 2011)

the Agreement took place in Malaysia. Thus these three jurisdictions must be considered in determining the applicable substantive law in this dispute.⁴

It is thus necessary to determine which state has the greater interest in the application of its law. Under the most significant relationship test used in choice of law cases, factors such as; place of the alleged contracting or where the relationship is centered, place of negotiating the alleged contract, place of the alleged performance, place of the subject matter, place(s) of incorporation and business of the parties are deemed to be deciding.

Although the products were of Sri Lankan origin and supplied by a company incorporated in Sri Lanka and the distributor was a company incorporated in Singapore; the business relationship of the parties was centered in Malaysia, the contract was negotiated and entered into in Malaysia, the contract was performed in its entire capacity in Malaysia and the dispute in concern is based entirely on the business activities of both the parties within the territory of Malaysia.

Therefore the Agreement must be interpreted in the light of the applicable law in Malaysia.

However, there is another school of thought among International arbitrators that most international commercial disputes can and should be resolved according to the contract and relevant usages, without reference to the governing law and so very little depends on the governing law. Basing the core interpretation of an agreement/contract on what the parties intended, agreed and expected.

Hence, the Claimant argues; regardless of the applicable substantive law the actions of the Respondent amount to a clear breach of the Agreement in concern.⁵

⁴ Chapter 6 KLRCA Arbitration Act 2005 (Revised 2011); Article 35 KLRCA Arbitration i- Rules

⁵ Choice of law in ICA, Lew

II. Procedural Law

The procedural law of the arbitration is sometimes referred to as the *lex arbitri* or curial law.

The procedural law that will apply depends on the place, or 'seat', of the arbitration.

The orthodox theory stands as the law of the seat is necessarily the procedural law governing the arbitration. The underlying principle behind this stance is the presumption that the law of the "seat" was "irresistible" in the absence of an explicit choice of some other law.⁶

The seat of the arbitration in this case is Colombo, Sri Lanka with the consensus of the parties to the Agreement.⁷

The procedural law determines to what extent the local courts will be involved in the process, for example: any formalities to be complied with, the extent to which the arbitration agreement excludes court jurisdiction, how much autonomy and discretion the parties have in choosing the arbitral procedure, what support the court will give to the arbitration, whether the decision of the arbitral tribunal can be appealed and what timescales will apply and enforceability of the award.

Thus the Tribunal of Kuala Lumpur Regional Center for Arbitration will thereby decide on the dispute abiding by the procedural law guided by the substantive law identified above.

⁶ Channel Tunnel Group Ltd v. Balfour Beatty Construction Ltd [1993] AC 334; New York Convention (Article V.I (d))

⁷ KLRCA i- Arbitration Rules - Rule 6 Seat of Arbitration; Article 18 Place of Arbitration

B. Whether or not ATC has breached the Agreement by distributing SAILOR'S CEYLON affixed with the ATC's Mark in Malaysia.

I. Has there been a breach of Agreement?

If the Respondent is found to have acted beyond any clause/s of the Agreement entered into between the two parties on 20th October 2008 in accordance with the governing law of the Federation of Malaysia – the Respondent will be held liable for the breach of Agreement.

The Claimant argues that the Respondent has breached the Agreement on several fronts.

Namely;

II. Distributing SAILOR'S CEYLON in Malaysia:

Clause 4.1 of the Agreement categorically states that the Respondent “must not obtain the products or any goods that compete with them, for resale from any person other than the supplier”.

The action of the Respondent to distribute SAILOR'S CEYLON, which was manufactured in China from tea grown in China, in the territory thus becomes a clear violation of clause 4.1 as according to the facts of the case, it can safely be assumed that ATC Singapore is the Parent company having its subsidiaries in China and Malaysia; and each of those companies will have a separate legal personality. One entity is distinct from the other. Hence even if the profit of the sales was remitted to the Parent ultimately, the sequence of events amount to “obtaining goods that compete with the product from another person”

III. Distributing SAILOR'S CEYLON affixed with the ATC's Mark in Malaysia

Clause 4.2 of the Agreement stipulates that “During the Term and for a period of 12 months after it the Distributor must not be concerned or interested, either directly and indirectly, in the manufacture or distribution in the Territory of any goods that compete with the Products, affixed with the Trade Marks or any other arguably similar mark in the Territory”.

The facts of the case indicate that the Respondent whilst functioning in the capacity of the authorized distributor of the Products, got directly involved in both the manufacture and distribution of a good that competes with the Products in the Territory for eleven months (November 2012 – October 2013) and continues to do so up to date.

Furthermore, both the Product and SAILOR'S CEYLON are manufactured from seeds of Sri Lankan origin. That is the quality, texture and technically the taste of each for the same end product would be identical or very similar.

The facts of the case also suggest that the retail price of SAILOR'S CEYLON was one or two RM lower than that of the Product. That on one hand gives SAILOR'S CEYLON a competitive advantage price wise and on the other hand the almost identical pricing of approximately RM 24 and RM 25 would mislead the customers thus creating competition for market retention of the Product.

Products of ATC and CTC are both made available to end consumers through intermediaries such as wholesalers, retailer and food and beverage establishments. Thus increasing the competition between the two products already created due to the distribution of SAILOR'S CEYLON in the same territory as ATC's Supplier.⁸

⁸ Slide & Hide System (S) Pte Ltd v Chua Seng Guan [2009] SGHC 191

The issue in relation to competing products is accentuated by the fact that CTC CEYLON owned a market share that was believed to be equal to that of ATC market share. If the Claimant possessed a majority of the market the issue of competition could have been addressed with less aggression.

Affixing ATC Mark on ATC products would not have been in question if not for the striking similarity between the former and the heraldic lion insignia born by the Claimant's Products.

The components of the ATC Mark are as follows:

1. A black and white Lion in passant attitude
2. The words "SYMBOL OF QUALITY" in black
3. The number "1972" in black
4. Black outline of a vertical rectangle within which items (1),(2)&(3) are contained.

The components of the Heraldic lion insignia are as follows:

1. A black and white Lion in passant attitude bearing a sword in its raised fore limb
2. The words "CEYLON TEA" in black
3. The words "SYMBOL OF QUALITY" in black
4. Black outline of a vertical rectangle within which items (1),(2)&(3) are contained

Both the Lion Logo and the ATC Mark are typically of 4cm² size on a 100cm² surface and are affixed on the sides of the boxes, above the information of importers, packers and/or distributors.

The Claimant agrees that the ATC Mark is not “the” Lion Logo used by the Claimant. But, it is, as indicated above, indeed arguably similar to the extent that it may confuse and mislead customers.⁹

IV..Marketing of the Products

Clause 7.1 of the Agreement binds the Respondent to “use his best endeavours to promote the sale of the Products throughout the Territory”.

Clause 7.6.8 of the same Agreement binds the Respondent to consult the Supplier’s representatives to assess the state of the market in the Territory and permit them to inspect any premises or documents used by the Claimant in connection with the sale of the Products.

The facts of the case indicate that the Respondent has been extremely negligent as to the observance of the clauses in the very Agreement it entered into as a company. Its actions of entering into competition with the Claimant with the knowledge that it was indeed breaching several core terms of the five year Agreement it was party to are evidence in themselves for such breach.¹⁰

V.Intellectual Property

The Respondent has agreed not to use any of the Trade Marks in any way that might prejudice or damage their distinctiveness or validity or the goodwill of the Claimant in them under Clause 9.3.3 of the Agreement.

⁹ MALAYSIA: Plus and More in Chips: the Battle of the Chocolate Chip Cookies; Contributor: Gladys Mirandah, Patrick Mirandah Co., Kuala Lumpur; Verifier: Joshua Kevin Sathiaseelan, Kevin & Co., Kuala Lumpur <http://www.southeastasia-iprhelpdesk.eu/en/node/311>

¹⁰ Jack Wills Ltd v House of Fraser (Stores) Ltd [2016] EWHC 626 (Ch), [2016] All ER (D) 89 (Apr)

By virtue of Clause 9.3.7 the Respondent agrees not to use any trade marks or trade names so resembling the trade marks, any trade mark or trade names of the Supplier as to be likely to cause confusion or deception.

Thus the Claimant argues that the undertaking by the Respondent to effectively indemnify the Supplier against all claims, demands, losses, expenses and costs the latter may incur as a result of any breach by the Respondent of any provision contained in the Agreement should be effected.¹¹

C. Whether or not ATC's use of the word CEYLON in respect of its tea products is misleading

Any kind of product packaging that notwithstanding a cursory examination as a result of the size of the packaging, its form or design or other important elements directly related to the packaging, including as well comparisons of the product in its current state to previous packaging and to competitors' packaging, deceives or is likely to deceive the average consumer in relation to the quantity, the quality or other main characteristics of the product, and which causes or is likely to cause the average consumer to make a transactional decision that he would not have taken otherwise is identified to be misleading.¹²

The Claimant argues that the Respondent's use of the word CEYLON on its teas products is likely to deceive an average consumer about the main characteristics of the product and lead

¹¹ *OOO Abbott v Design & Display Ltd; Hollister Incorporated v Medik Ostomy Supplies Ltd*; UNIDROIT Principles of International Commercial Contracts 2010

¹² Directorate General for Internal Policies Policy Department A: Scientific and Economic Policy Internal Market And Consumer Protection Misleading Packaging Practices Briefing Paper; *Danone Biscuits Manufacturing (M) Sdn Bhd v Hwa Tai Industries Bhd* [2010] 4 CLJ 711

him to make the choice to ultimately purchase the Respondent's product, whereas his original intention was to purchase the Claimant's product.¹³

As the facts of the case indicate, the Lion Logo of which the SLTB is the registered trademark proprietor in many jurisdictions worldwide including Malaysia, is affixed to tea grown and manufactured entirely in Sri Lanka and meets the quality standards set by the SLTB.

In fact, the SLTB website boasts that "The Lion Logo on your pack of tea is a guarantee for 100% Pure Ceylon Tea packed in Sri Lanka. To ensure what you buy is Ceylon Tea, look for the Lion Logo".¹⁴

However, the SLTB was subject to the condition by Intellectual Property Corporation of Malaysia, that SLTB had no exclusive rights over the words "CEYLON" and "SYMBOL OF QUALITY" contained in the heraldic lion insignia.¹⁵

Regardless, the Claimant pleads that the product contained within the packaging of ATC and CTC respectively were inherently of different quality standards. The Claimant manufactured tea that bore a guarantee for 100% Pure Ceylon Tea packed in Sri Lanka. It is "a" lion logo that a consumer would look for to ensure that he is buying pure Ceylon tea.¹⁶

When two products bearing both an image of a lion and the word "CEYLON" on its packaging are on the shelf of a supermarket, the likelihood of the customer at a cursory glance, being misled is extremely high.¹⁷

¹³ Comic Enterprises Ltd v Twentieth Century Fox Film Corporation [2016] EWCA Civ 41

¹⁴ <http://www.pureceylontea.com/index.php/features/lion-logo>

¹⁵ Intellectual Property Corporation of Malaysia Act 2002

¹⁶ The impact of packaging, price and brand awareness on brand loyalty: Evidence from the paint retailing industry; Manilall Dhurup; Chengedzai Mafini; Tshepiso Dumasi

¹⁷ Chocosuisse Union des Fabricants Suisses de Chocolat (a co-operative society formed under title XXIX of the Swiss Code of Obligations) & Ors v Maestro Swiss Chocolate Sdn Bhd & Ors [2010] 3 MLJ 676; [2010] 5 CLJ 794

Therefore, it is evident that the Respondent's use of the word CEYLON will mislead consumers.¹⁸

D. Whether or not ATC's use of the ATC Mark amounts to trademark infringement and/ or passing off.

Clause 9.9 of the Agreement states that the Claimant has the sole discretion to decide what action to take for any infringement or alleged infringement of or by the Trade Marks, including both Trade Mark action under the governing law or passing-off or any other claim or counter-claim brought or threatened in respect of the use or registration of the Trade Marks.

The Claimant thereby pleads that the Respondent's use of the ATC Mark amounts to a Trade Mark infringement and brings a claim in Trade Mark passing-off under the governing law.

Trademarks include a "device, brand, heading, label, ticket, name, signature, word, letter, numeral or any combination thereof", used in relation to any goods or services for the purpose of indicating a connection between the goods or services and the registered owner or user, in the course of trade.¹⁹

BY virtue of s. 38(1) of the 1976 Act, the Respondent has infringed the Lion Logo, which is a registered Trade Mark by using ATC's Mark which is so nearly resembling it as is likely to deceive or cause confusion in the course of trade in relation to the Product.²⁰

¹⁸ Lockheed Martin Corporation v Raytheon Company [2010] 4 CLJ 95

¹⁹ Malaysia Trademark Infringement; Contributing firm Skrine ;Authors Charmayne Ong Poh Yin Partner; Adriani Wahjanto Legal Assistant

²⁰ s. 38(1) MALAYSIA Trademark Act - Act 175 of 1976 as amended by Act A1138 of 2002; MALAYSIA TM Committee Country REPORT 2010 By Jern Ern CHUAH -Meidi-Ya Co Ltd Japan & Anor v Meidi (M) Sdn Bhd [2009] 2 CLJ 15 (Federal Court); McLaren International Limited v Lim Yat Meen [2009] 4 CLJ 749 (Federal Court)

Of the trademarks in concern stipulated under Schedule 1 of the Distribution Agreement, the words “CTC CEYLON” were not registered trademarks in Malaysia. However, ATC’s Mark contains the word “CEYLON” which has been until the breach of contract by the Respondent took place, a symbol that was associated with the good will of the Claimant in the Malaysian market.²¹

However, by virtue of s.82(1) of the Malaysia Trademark Act, action cannot be initiated to prevent or recover damages for the infringement of an unregistered trademark.

Nevertheless, s.82(2) of the same Act stipulate that s.82(1) does not impede on the right of action of any person for passing off goods as those of another person.²²

The elements of passing off include; The party bringing the action having acquired goodwill and reputation in the mark, The actions of the guilty party are likely to be or are a misrepresentation to the relevant trade and public and The party bringing the action has suffered or is likely to suffer damage and injury to its business, goodwill and reputation as a result of the guilty party’s misrepresentation.²³

²¹ UNIDROIT Principles of International Commercial Contracts 2010

²² Dun & Bradstreet (Singapore) Pte Ltd v Dun & Bradstreet (Malaysia) Sdn Bhd ([1993] 2 All Malaysian Report 3304)

²³ Reckitt & Colman (Products) Ltd v Borden Inc ([1990] Weekly Law Reports 493; Sinma Medical Products (M) Sdn Bhd v Yomeishu Seizo Co Ltd ([2004] 4 Malayan Law Journal 358)

Prayer for relief

The Claimant, Chelsea Tea Company, respectfully requests that this Tribunal declare that:

1. An order for damages payable to CTC by ATC are determined by the profits of ATC made by the sale of SAILRO'S CEYLON in Malaysia.
2. An order that parties can only refer to tea grown and manufactured entirely in Sri Lanka as "Ceylon Tea".
3. An order that ATC stops using the name "SAILOR'S CEYLON" , the ATC's Logo, or any other name or mark containing the word 'CEYLON' or a lion device if its tea does not originate from Sri Lanka, thereby preventing further infringement by the Respondent.
4. An order directing ATC to discontinue the sale of its products described as 'Ceylon Tea' and to recall all such products from the market.