



Trade Descriptions (Amendment) Ordinance 2008, Hong Kong

Recent changes to Hong Kong's Trade Descriptions Ordinance will introduce two new criminal offences prohibiting false or misleading representations that a seller of goods is connected with, or is endorsed by, another individual or body. The new offences come into force on 2 March 2009.

Although intended to address gaps in existing consumer protection legislation, the new offences potentially offer another means for brand owners to protect their trade marks and trading and product identities. The extent to which these new offences may also have a role in business-to-business disputes remains to be seen. This briefing outlines the legislative background and both new criminal offences in further detail.

Introduction and legislative background

Pending the introduction of a comprehensive trade practices statute, the Legislative Council in Hong Kong (LegCo) has introduced a number of discrete amendments to augment existing consumer protection legislation in key areas. The enhancements are intended to combat the most blatant deceptive, misleading and unfair trade practices and help boost confidence in the consumer retail market.

New criminal offences of 'false' and 'misleading' representations of corporate or business connection with, or endorsement by, another individual or body have been introduced.

The purpose of these new offences was narrowly defined during the bill stage as a protective measure against false claims of endorsement by celebrities and other well-known and prestigious organisations. However, the scope of the first new offence (section 13C(1) of the Amended Ordinance), which prohibits outright false representations of a corporate or business connection, or of an endorsement by another individual or body, appears to reach significantly further than that. The offences nevertheless relate only to the sale of goods. Neither offence applies to a provider of services.

The introduction of these new offences therefore offers another means for brand owners to protect their trade marks and trading and product identities in situations involving the sale of goods. Despite its expansive reach, it should be borne in mind that the legislation does not allow a private right of action. Furthermore,

because the purpose of the new offences is to stamp out blatant malpractice, Customs & Excise is likely to reserve enforcement to clear-cut cases involving serious consumer harm.

First offence: false representation of connection or endorsement

The first offence in section 13C(1) of the Amended Ordinance provides that 'any person who, in the course of any trade, business or profession, makes a false representation to any other person that a particular seller (whether or not the seller is the person who makes the representation) who sells any goods in the course of any trade or business is connected with or endorsed by any individual or body commits an offence.' The offence is limited to a representation that is false and the representation need not be made by the seller itself.

The person making the representation has a valid defence if it is proved that he or she did not know, and had no reason to believe, that the representation was false¹.

Certain features of this new offence are worth noting.

- On its face, the offence is not limited to a direct and explicit representation, nor does it require a positive statement that the seller is connected with or endorsed by another person. Implicit and indirect representations appear to fall within the scope of the offence.

¹ Section 13C(4) of the Amended Ordinance.

- There is also no requirement as to the form of the representation. Non-verbal representations, including representations implicit in the use of a picture, a trade mark or similar get-up, appear to be included.
- There is no requirement for the individual or body, with or by whom a connection or endorsement is claimed, to be well known.
- There is no requirement that the false representation is relied upon or even believed by the consumer. It is enough that a false representation has been made in connection with the sale of goods.

The new offence is broadly stated and of potentially very wide application.

The new legislation contains apparently exhaustive definitions of ‘connection’ and ‘endorsement’². A connection is defined as a representation that the other individual or body has a proprietary interest in or is part of the same group as the seller, has any other form of close business association with the seller or is its agent or principal³. An endorsement is defined as a ‘positive evaluation specifically of the seller’, or a representation that the seller has the ‘permission, authorisation or consent’ of the third party ‘without which the seller would not be able to sell the goods concerned lawfully’⁴.

Has Hong Kong in effect made the common law tort of passing off goods a statutory offence?

The first offence covers much of the same territory as the common law tort of passing off. At the core of the classical action in passing off is a representation that the defendant (or their goods) is connected with the claimant.

In some respects the first offence is in fact more wide-reaching than the tort of passing off. For instance, there is no requirement that the individual or body whose connection or endorsement is claimed has any protectable goodwill or activities in Hong Kong, nor that

² Section 13C(3) *ibid*.

³ The defined category does not include the counterfeiter’s assertion that the seller ‘is’ the other individual or body, although this too is likely to be caught by one of the other heads of ‘connection’ (such as common control).

⁴ This seems to include a licensing relationship but appears not to include a representation of endorsement by an entirely fictitious body – for example, a fictitious standards body – unless the fictitious body is given a name that is very similar to that of an actual body in existence.

the consumer has relied upon the reputation or been confused by it. There is also no requirement that the aggrieved person has suffered damage because of the representation.

The offence is, however, limited to intentionally false representations or those made without reason to believe that the representation was true⁵. The tort of passing off, on the other hand, can apply to an innocent misrepresentation as well. Most false claims of endorsement or connection made by a seller are nevertheless likely to be intentional. The defence outlined above is presumably intended, first and foremost, to benefit resellers and certain employees or other agents of the seller. The defence may however also apply to the unintentional use of similar get-up, for example.

Second offence: misleading representation of connection or endorsement

The second offence in section 13C(2) of the Amended Ordinance applies to misleading representations made in the course of a business or trade as well as to representations that are false⁶.

Critically, the second offence is limited to a representation consisting of the use of a name that is identical to, or very similar to, the name of a reputable individual or body. The second offence is therefore significantly narrower in its application than the first offence and excludes non-verbal and also some verbal representations that might have been caught by the first offence if they were false. Representations consisting of the use of similar trade marks or packaging get-up will

⁵ If the representation is false, the burden is in fact on the alleged offender to show that he had no reason to believe that it was false. It is unclear whose belief will be relevant if the representation is made by a corporate seller.

⁶ Section 13C(2). Any person who –

- a in connection with –
 - i the supply or possible supply of any goods in the course of any trade or business; or
 - ii the promotion of the supply of any goods in the course of any trade or business, makes a representation to any other person (‘information recipient’) that the seller who supplies the goods is connected with or endorsed by any individual or body (‘subject individual or body’); [and]
- b ought reasonably to expect that the information recipient is likely to mistake the subject individual or body for another individual or body who or which is widely known to be of good standing and reputation (‘reputable individual or body’) because the name of the subject individual or body is identical with, or very similar to, that of the reputable individual or body; and
- c fails, where the seller is not connected with or endorsed by the reputable individual or body, to take reasonable steps to prevent the information recipient from believing that the seller is connected with or endorsed by the reputable individual or body, commits an offence.

not be actionable under this second offence. This offence is narrowed further by its requirement that the individual or body whose endorsement is claimed or with whom a connection is claimed, is widely known to be of good standing and reputation. It is accordingly not sufficient that the reputable individual or body is well known per se; it must be well known to be of good standing and reputation⁷. What amounts to good standing and reputation is left undefined.

These limitations are regrettable. LegCo explained that the second offence has the narrow purpose of 'avoid[ing] misunderstandings'⁸ in the unusual case where the seller's own name or that of a person held out to be connected with the seller happens to be the same or similar to the name of a well-known person or entity, and imposes upon the seller a duty to correct such misunderstanding. However, consumers are equally capable of being misled by the use of similar packaging get-up or trade marks, or indeed by a picture of a celebrity and not only the use of that person's name⁹.

Is there potential for application in business-to-business disputes?

LegCo has stressed that the objective of the new offences is consumer protection but the new offences may also have potential application in business-to-business disputes. Any person may file a complaint with Customs & Excise. Moreover, false or misleading claims made at non-retail stages of the sales chain (for example, by manufacturers or wholesalers) are also included.

It remains to be seen which offences Customs & Excise will choose to prosecute. Given that the expressed purpose of the new offences is to stamp out blatant malpractice, enforcement is likely to be reserved for clear-cut cases involving a possibility of serious consumer harm.

Practitioners and rights holders in other jurisdictions will be acquainted with the difficulties of persuading trading standards bodies to take action in connection

with disputes at the trade level in areas with which they are unfamiliar. Such requests are likely to meet with similar resistance in Hong Kong. Moreover, the extended remedies available in a civil action for passing off, such as an injunction or order for delivery up of infringing products, will not be available in relation to an offence under the Amended Ordinance. The penalty for contravention of the new offences is a fine of HK\$500,000 and five years' imprisonment if convicted on indictment. If convicted on summary indictment, the maximum penalty is a fine of up to HK\$100,000 and imprisonment for two years.

It also remains to be seen how the new offences will be interpreted by the courts. Their potential for application in business-to-business disputes will, for example, be significantly reduced if they were held to require a positive and direct representation, or if it were held that the representation must be capable of being apparent to the consumer and therefore requires the use of well-known trading insignia of a well-known individual or body.

Despite these limitations, the new offences are likely to be welcomed by brand owners as offering another avenue of redress to protect their trade marks and trading identities where the sale of goods is involved.

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⁷ However, the circumstances in which a seller would wish to claim that it is connected with or endorsed by an individual or body person who is neither well known nor reputable must be considered limited.

⁸ LC Paper No. CB(1) 1670/07-08 (Paper for the House Committee meeting on 30 May 2008), paragraphs 27 and 30.

⁹ See, for example, *Irvine v Talksport* [2003] EWCA Civ 423 in the UK.