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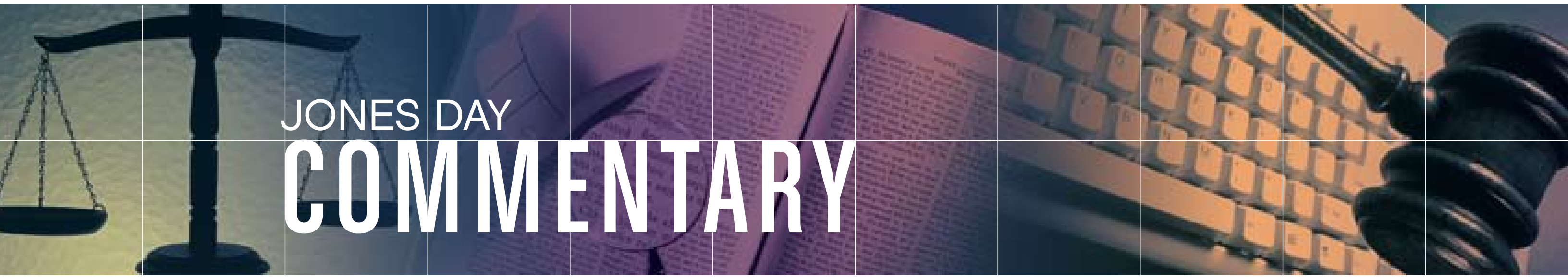

TACKLING THE PROBLEM OF COMPANY NAME PIRACY

The unauthorized registration of company names comprising well-known trademarks is becoming an increasing problem in Hong Kong. Such "shadow companies" frequently carry on no active business in Hong Kong, but are used to attempt to legitimize infringing activities in Mainland China or elsewhere. There are existing mechanisms under the Hong Kong Companies Ordinance ("Ordinance") for dealing with this problem, yet when asked by well-known brand owners to investigate shadow companies, the Companies Registry ("Registry") is currently failing to take action unless the company name in question is virtually identical to an existing registered company name.

This *Commentary* will examine the history behind the enactment of the relevant provisions under the Ordinance, the current approach of the Registry, the approach adopted in the United Kingdom, and the legal alternatives available to trademark owners for addressing this problem. It will conclude by recommending amendment of the Registry's current approach to dealing with company name piracy.

THE EXISTING PROVISIONS

The Ordinance contains two sections that were specifically enacted in order to address shadow companies:

1. Section 22(2), which enables the Registry to direct a company to change its name if, in the opinion of the Registry, it is "the same as" or "too like" an existing registered company name, provided an application is made to the Registry within 12 months of the date of registration of the company;

2. Section 22A, which enables the Registry to direct a company to change its name if, in the opinion of the Registry, "the name by which a company is registered gives so misleading an indication of the nature of its activities as to be likely to cause harm to the public." There is no time limit for an application under Section 22A.

BRIEF HISTORY

The current provisions under Section 22 of the Ordinance were implemented in 1990 under the Companies (Amendment) (No. 5) Bill 1990. The new Section 22 was based upon Section 28 of the United Kingdom Companies Act 1985 and was, among other things, intended to shorten the time required to register new companies. Under the system in use prior to 1990, the Registry was required to decide before registering a company whether the proposed name of a new company bore such a resemblance to the name of an existing company that opportunities existed for deception.

The whole process of registering a company at that time took up to three months. This time frame was much longer than that required in other jurisdictions and was, in the legislators' view, against Hong Kong's interests as an international business center. Therefore, the adoption of a simpler and quicker system, based on the United Kingdom approach, was proposed.

Accordingly, under the current system, the Registry is not required to consider whether a proposed name is too like an existing company name. The responsibility of monitoring the Register has been shifted onto the private sector. Any company name may therefore be registered as long as it is not identical to that of an existing company.

The government, however, clearly wanted to ensure that the rights of existing companies and trademark owners were not adversely affected by the shift in responsibility for examining new company names from the Registry to the public. Sections 22 and 22A were expressly included in order to safeguard these rights and prevent harm to the public. It is ironic, therefore, that the very same measures that were introduced in order to protect Hong Kong's reputation as a center for international trade have caused harm to that reputation due to the failure of the Registry to properly assess Section 22 and 22A applications.

THE COMPANIES REGISTRY APPROACH

The Registry's interpretation of and approach toward enforcing Sections 22(2) and 22A of the Ordinance is detailed in the Registry's "Company Names Guidelines 1998." The Guidelines state that, in dealing with the issue of "too like" names, the Registry will take into account all factors that may suggest similarity and lead to confusion between two companies. These will include, for example, the nature of the business concerned and the public awareness of the names. Names may be considered to be "too like" in the opinion of the Registry if:

1. The names are visually and/or phonetically identical;

2. There is only a slight variation in the spelling of the two names, and the variation does not make a significant difference between the names, *e.g.*, grammatical variations such as "trade/trading," addition of "s" or "es";

3. The names contain a word or words that might be regarded as a distinctive element, unless that element is qualified in a way that would minimize risk of confusion.

According to the Guidelines, "distinctive elements" will normally consist of "made-up words," "non-dictionary words," or "unusual combinations of two or more letters as a key part." In some cases, everyday words used in a "distinctive" way may also be considered distinctive elements. Place names or everyday descriptive words in general use will not normally be regarded as distinctive. Similar business classifiers or descriptive elements, *e.g.,* "press/printing," "staff agency/employment agency," or the inclusion in one name of only general or "weak" qualifications such as "international," "holding," "group," "services," etc., would not normally be regarded as sufficient qualifications or distinctions.

In addition to the above, the Registry will also consider the locations in which the respective businesses are conducted or evidence of actual confusion as to identity by customers. However, the Registry will not take into consideration any aspect of "implied association" between companies in considering whether two names are "too like" within the meaning of Section 22(2), *i.e.*, whether the company under complaint might be thought to be a member of, or associated with, a particular company or group of companies. Jones Day would suggest that this policy should be reversed in cases involving the unauthorized use of well-known trademarks in company names.

In practice, it appears that the Registry is not satisfactorily implementing the Guidelines properly, is refusing to allow any Section 22A applications, and is rejecting all Section 22(2) applications other than those involving practically identical company names (even those that use business classifiers such as "international," "holding," "group," or "services"). This approach differs from the approach adopted by the UK Companies Registry under the UK's analogous legislation and is far removed from the intention of the Hong Kong legislature in enacting these provisions of the Ordinance.

SECTION 22A

Section 22A of the Ordinance empowers the Registry to give directions to a company to change its name when the Registry is of the opinion that the name is misleading as to the nature of the company's activities and this confusion may cause harm to the public.

There has not, however, been a single successful Section 22A application in Hong Kong in the past 18 months.

The UK equivalent was considered in the *Certified Public Accountants* case, in which it was held that the relevant section of the UK legislation was aimed solely at the company's name (not its activities), and that the statutory question did not require instances of anyone actually having been misled by the name to be shown. This is contrary to the approach in Hong Kong, where the overriding emphasis has been placed upon the nature of the company's activities, rather than whether the company's name itself is misleading.

The Registry seems to have adopted a blanket policy of refusing to allow Section 22A applications, notwithstanding the degree of similarity between the company name and the well-known trademark in question. In addition, the Registry has chosen to disregard evidence of questionable conduct on the part of those registering the company, leaving aggrieved trademark owners with no alternative other than the expensive route of trademark infringement and/or passing-off litigation.

Jones Day has filed a number of applications under Section 22A on behalf of well-known trademark owners with respect to company names bearing their well-known trademarks. The Registry in each case has requested actual evidence of consumer confusion to be filed. This is contrary to the judgment of Jacob J in the *Certified Public Accountants* case, in which it was held that, when evaluating evidence:

> Some cases will be so plain that no or virtually no evidence is needed. In other, more marginal cases, just as in passing off, evidence will be needed to demonstrate that a name is misleading and likely to harm the public.

Even when faced with evidence of deliberate misleading conduct, such as the use of the company name in question in order to apply for bank loans in Mainland China, and the unauthorized use of well-known trademarks on the company's letterhead, the Registry has rejected each of the Section 22A applications. In each of these cases, the Registry has argued that, since the Memorandum of Association of each of the companies in question does not contain an objects clause, the companies in question have the capacity, rights, powers, and privileges of a natural person (*i.e.*, they are free to conduct any activity they wish under the company name in question), and accordingly it cannot be said that the name is misleading as to the nature of the company's activities. This is a specious contention, seeing that it has for many years been standard practice for all companies to be incorporated in Hong Kong without limitation as to the objects of the incorporation.

UK COMPANIES REGISTRY

In contrast to the approach in Hong Kong, it has been recognized in the UK that the decision process in these cases necessarily involves a subjective element. The internal Guidelines issued by the Registry acknowledge that the UK rules were drawn up in broad terms and should not act as a total substitute for the personal judgment of each case officer. It has been recognized in the UK Guidelines and in the *Comar* case that the overriding consideration must be whether the decision finally reached makes sense. If the decision process has been carefully followed and the result is a decision that does not appear to be sensible, then further special consideration of the case would be required. The Hong Kong Companies Registry would do well to adopt a similar approach in assessing Section 22 and Section 22A applications under the Ordinance.

THE LITIGATION APPROACH

Trademark owners do have the option of commencing trademark infringement or passing-off litigation against offending companies, seeking an order from the court that the company in question change its name to a name not incorporating the plaintiff's trademark. Further, in the case of marks entitled to protection as well-known marks under the Paris Convention, the trademark infringement cause of action will be established if the company name is being used in respect of any goods or services (including those for which the mark has not been registered), as long as the plaintiff can show that the use of the mark, being without cause, takes unfair advantage of, or is detrimental to, the distinctive character or repute of the trademark.

In addition, under common-law passing off, there is a long line of authorities that have established that the mere fact of registering a company name incorporating the name or similar name of another trader, even if the defendant has not started trading under that name, constitutes passing off through the creation of an instrument of deception.

Jones Day has handled a number of such cases on behalf of well-known clients. In each case, the defendant has failed to respond, and we have been able to obtain default judgment within a matter of months, including an order restraining the shadow companies from using the brands in question in Hong Kong or elsewhere. However, litigation can be a costly and time-consuming process and could be avoided in many cases if the Registry were willing to examine the registration of shadow companies more rigorously.

CONCLUSION

Unfortunately, even when Section 22 and 22A applications present glaringly obvious examples of trademark infringement, the Registry appears unwilling to make a stand. By neglecting to take into account the most obvious and predominant feature of these names—the infringed trademarks—the Registry is failing to protect both legitimate trademark owners and the public at large.

Jones Day has been asked by various well-known trademark owners to investigate the possibility of lobbying the Hong Kong government in order to change the Registry's procedure in examining these cases. We would welcome any input and feedback from trademark owners who have faced this problem in Hong Kong or elsewhere.

LAWYER CONTACTS

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