

## TRADEMARK ENFORCEMENT IN MALAYSIA – HOW COUNTERFEITS AFFECT BUSINESSES

### **Could Trademark Enforcement Have Made a Difference?**

Counterfeits impact the Malaysian economy way harder than you might think. A study by the Federation of Malaysian Consumers Associations (FOMCA)<sup>1</sup> revealed that counterfeit goods are part of the shadow economy which represents roughly 21% of Malaysia's GDP. Transactions involving counterfeit items typically bypass legal business channels, often occurring through smuggling and brand impersonation. Pankaj Kumar, a former Chief Investment Officer of an insurance fund said that the Malaysian government is losing approximately RM36bil in tax revenue alone due to these leakages. Similarly, while a company primarily relies on its revenue streams, its overall value is also driven by factors such as goodwill, customer loyalty, customer satisfaction, sales volume, and marketing efforts. Certain tangible and intangible assets of a company may be protected through intellectual property rights ("IPR"). Everyone is securing their IPR, but is enforcing them worth the cost?

Counterfeit merchandise can severely disrupt a brand's revenue streams, not only by diverting sales but also by undermining opportunities to monetise through licensing and enforcement. As fake products flood the market, consumers begin to question the authenticity of genuine goods, weakening brand equity and diminishing pricing power. This erosion of trust can turn a premium brand into a commodity, making it harder to retain loyal customers. Moreover, companies with poorly protected intellectual property are often seen as high-risk during mergers, acquisitions, or investor evaluations, potentially reducing their attractiveness and valuation.<sup>2</sup>

### **The Recent Dissolution of Perak FC**

Let's learn a lesson from the dissolution of Perak FC.<sup>3</sup> Perak FC, a storied football club founded in 1921 and wholly owned by XOX Berhad, had played in Malaysia's top-flight league for over a century before financial struggles led to its official withdrawal from the

Super League. A potential and largely underutilised revenue stream could have come from stronger trademark licensing and merchandise sales, especially through the proper enforcement of their intellectual property rights. In Malaysia, counterfeit football jerseys are widespread, including replicas of local clubs like Perak FC. Had the club taken active legal steps to curb the circulation of counterfeit merchandise and properly monetised its branding through licensed products, it may have established a sustainable revenue base. This form of brand protection and monetisation could have been a financial lifeline that kept the club from being dissolved.

### **Industry-Specific Trademark Risks**

Different industries face distinct forms of trademark-related risks depending on the nature of their products, customer expectations, and methods of distribution. These industry-specific vulnerabilities show that trademark infringement is not a uniform threat.

In the food and beverage industry, companies are exposed to significant risks of packaging knockoffs, which are effectively a form of counterfeiting. In such cases, brand owners lose control over product quality, safety, and the overall customer experience. According to the World Trademark Review,<sup>4</sup> counterfeit goods in this sector often lack reliable source indicators and may contain hazardous substances while using identical copies of the registered trademark.

In the esports and gaming industry,<sup>5</sup> counterfeit problems include fake gaming merchandise, pirated software, and unauthorised use of team logos or in-game assets. Such infringements interfere with income streams from licensing, sponsorships, and digital content. The issue is worsened by limited intellectual property awareness among some tournament organisers and streamers, making enforcement more difficult in an environment where content is rapidly shared or streamed.

The fashion industry is one of the most severely affected by counterfeiting because of its heavy reliance on design and brand image.<sup>6</sup> Counterfeit apparel, footwear, and accessories are commonly found on online platforms and in informal markets. These goods are often sold at lower prices that mislead consumers and reduce the perceived value of genuine products. The OECD has identified fashion as one of the top three sectors most affected by counterfeiting.

### **The Threat of Counterfeits: A Direct Attack on Your Brand**

It is a duty for manufacturers to ensure that the goods supply by them to be of acceptable quality<sup>7</sup>, fit for particular purpose<sup>8</sup>, and comply with description and sample<sup>9</sup>. You've built a trusted brand, invested in marketing, and quality control, only to find someone else profiting off your name with substandard imitations. This is the modern reality of counterfeiting, and it's no longer limited to street side vendors selling knockoff handbags.

Counterfeit goods in relation to a registered trademark are goods that illegally use a registered trademark and display a fake version of that trademark on the product or its packaging.<sup>10</sup> In essence, they are unauthorised imitations of branded goods or services that attempt to pass off as genuine.

Identifying counterfeits has become increasingly difficult as counterfeiters improve their replication tactics<sup>11</sup>. These days, even seasoned consumers are easily deceived, especially when purchases are made online. Businesses have seen significant sales drops in recent years as third-party sellers on platforms like Shopee, Lazada, and Taobao operate with easy access and minimal regulation<sup>12</sup>.

What's more concerning is that once your counterfeit products appear on e-commerce platforms, your ability to stop these unauthorised sellers becomes extremely limited. Courts are generally reluctant to grant equitable relief against these e-commerce platforms, leaving brand owners with few effective remedies.<sup>13</sup>

## **How Counterfeits Product Harm Your Businesses**

Counterfeit products are a direct attack to your goodwill. Besides the obvious drop in sales, counterfeit products harm your business by:

### **1. Diluting Goodwill:**

Brand equity is built over time, yet counterfeits can tarnish it overnight. Even loyal customers may question a brand's authenticity when knockoffs become widespread. For example, a loyal customer might question buying the original product when the knockoffs are of similar quality to the naked eye<sup>14</sup>.

### **2. Eroding Consumer Trust:**

A customer may unknowingly buy a fake product of poor quality, potentially unsafe and associate that experience with your brand. The damage can be irreversible as customers' loyalty is key to an established goodwill<sup>15</sup>.

### **3. Undermining the Trademark's Purpose:**

A trademark is meant to signify a single, consistent source. Counterfeits destroy this link, rendering the mark unreliable in the eyes of the public.

In Malaysia, the Ministry of Domestic Trade and Cost of Living (KPDN) has reported frequent raids and seizures, particularly in the fashion, electronics, and F&B sectors<sup>16</sup>. Yet many SMEs do not file complaints or register their IP rights, leaving them defenceless.

## **Practical Considerations for Business Owners**

Enforcing your trademark is not just a legal right, it's a business imperative. Businesses especially SMEs should consider the following steps to protect their budding goodwill.

## **1. Register your Intellectual Property Rights**

You can only protect, what is yours. Registering your intellectual property rights especially for trademark will allow you to a broader spectrum of legal protection over your goodwill and rights.

Registration not only strengthens your position in court but also enables proactive measures such as customs recordation, takedown requests on online platforms, and licensing opportunities.

## **2. In-house Risk Assessment**

One of the many ways to stop a threat is to first identify it. Your marketing team's role should not only be limited to gaining exposure but also to maintain and ensure longevity of goodwill.

This means conducting regular in-house risk assessments to monitor potential threats, both online and offline. Businesses must detect early signs of brand misuse. In this way, risk assessment becomes not just a defensive tool, but a proactive part of brand strategy.

## **3. Cost Benefit through a Long-Term Lens**

Legal action can incur a lot of cost, but so is inaction. Instead of viewing enforcement as an expense, consider it an investment in your brand's sustainability and value.

By taking proactive enforcement, you're able to strengthen market exclusivity and deter any future infringers thereby directly enhancing brand valuation in any funding or acquisition exercises.

## **Conclusion**

Counterfeiting is not just a nuisance; it's an existential threat to businesses. The earlier companies recognise this and take action, the better positioned they are to defend and monetise their brand assets. Intellectual property enforcement is no longer optional; it's a key part of any serious business strategy.

To explore pre-emptive strategies for protecting your brand in Malaysia, feel free to contact our team at [PAT@azmilaw.com](mailto:PAT@azmilaw.com)

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2. OECD/EUIPO (2019), Trends in Trade in Counterfeit and Pirated Goods, Illicit Trade, OECD Publishing, Paris/European Union Intellectual Property Office. <https://doi.org/10.1787/g2g9f533-en>. Accessed via: [Trends in Trade in Counterfeit and Pirated Goods](#).

3. <https://www.nst.com.my/sports/football/2025/04/1207699/perak-fc-officially-withdraw-super-league>.

4. <https://www.worldtrademarkreview.com/article/the-fight-against-counterfeits-in-the-food-and-beverage-sector>.
5. [Intellectual Property Rights and Esports — Sheppard Mullin](#).
6. WIPO (2023), The Role of Intellectual Property Rights in the Fashion Industry: From Conception to Commercialization. Accessed via: [The Role of IPR in the Fashion Industry: From Conception to Commercialization](#).
7. Section 32 of Consumer Protection Act 1999.
8. Section 33 of Consumer Protection Act 1999.
9. Section 34 and 35 of Consumer Protection Act 1999.
10. Section 6 of Trademarks Act 2019.
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14. <https://nabcore.com/understanding-consumer-behaviour-in-purchasing-counterfeit-products-how-brands-can-address-them/>.
15. <https://www.business.com/articles/what-makes-customer-loyalty-so-important/>.
16. <https://www.nst.com.my/news/nation/2025/03/1191633/over-4000-counterfeit-items-seized-senawang-aidilfitri-bazaar-raid#:~:text=SEREMBAN:%20The%20Domestic%20Trade%20and%20Cost%20of,bazaar%20at%20Dataran%20Senawang%20here%20on%20Thursday>.

**Written by:**



**Amera Mohd Yusof**  
Founding Partner, Amera  
& Associates Advocates  
general@ameralaw.com



**Amir Fahmi Annas**  
Associate  
amirfahmi@azmilaw.com



**Muhammad Amirul Rafeeq  
Aznorashiq**  
Trainee Solicitor  
amirul.rafeeq@azmilaw.com

\*\*\*This article is written in collaboration with Amera Yusof, Founding Partner of Amera & Associates Advocates, Kuching.

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**Azmi & Associates**

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damages, or an account of profits. In the Federal Court case of ***Mohammad Hafiz bin Hamidun v Kamdar Sdn Bhd [2021] 4 MLJ 878***, it was held that if a registered proprietor of a trademark successfully proves a claim for trademark infringement and/or tort of passing-off, the court will then proceed to assess the damages to be paid to the proprietor by the perpetrator as compensation.

## **Conclusion**

In conclusion, trademark registration is crucial in protecting brand identity and commercial interests of any business entities in Malaysia. Failure to register a trademark can lead to risks such as lacking proprietary rights and missing out on opportunities. If someone copies a registered trademark without permission, the registered proprietor can take legal action to uphold the exclusivity and reputation of the trademark. Therefore, registering a trademark not only shields the brand from potential infringements but also establishes a strong foundation for future growth and success.

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1. "What is Intellectual Property?" (WIPO) <<https://www.wipo.int/about-ip/en/>>.
  2. "Trademark Basics" (Intellectual Property Corporation of Malaysia (MyIPO)) <<https://www.myipo.gov.my/en/trademark-basic/>>.
  3. Trademarks Act 2019, s 159(1) and s 159(2).
  4. Note: The other concept available is 'First-To-File' (practiced in other countries such as Indonesia), which grants ownership rights to those who register the mark first with the government agency. However, Malaysia does not adopt this system.
  5. Trademarks Act 2019, s 56(2).
  6. Trademarks Act 2019, s 48.
  7. Trademarks Act 2019, s 54.

### **Written by:**



**Amera Mohd Yusof**  
Founding Partner, Amera &  
Associates Advocates  
general@ameralaw.com



**Amir Fahmi Annas**  
Associate  
amirfahmi@azmilaw.com



**Muhammad Amirul Rafeeq  
Aznorashiq**  
Trainee Solicitor  
amirul.rafeeq@azmilaw.com

## **Corporate Communications**

### **Azmi & Associates**

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\*\*\* This article is written in collaboration with Amera Yusof, Founding Partner of Amera & Associates Advocates, Kuching.

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