IS THERE A PLACE FOR THE FIRST SALE DOCTRINE IN THE PHILIPPINES?*

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INTRODUCTION

When the Intellectual Property (IP) Code[1] was enacted, Congress saw fit to enact a provision incorporating the *first sale* or *exhaustion doctrine* to patent rights.[2] It is a concept in intellectual property law in which the owner of an intellectual property, in this case a patent, loses (i.e. "exhausts") all his rights to the goods that is the subject of the intellectual property right after its first sale. In other words, after that first sale in the market, the owner of the intellectual property right can no longer control the goods. This concept, often used as a defense to a claim of patent infringement, finds significance in relation to parallel importation of patented goods. There is parallel importation whereby an unauthorized third party imports a product from another country where said product is cheap, and sells it in the local market in parallel with more expensive goods, which are either non-imported or imported from a source controlled by the trademark owner.[3]

Prior to the enactment of the Cheaper Medicines Act[4], the rule was that if the patent owner had put the patented goods in the market in the

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[1] Rep. Act No. 8293, Intellectual Property Code of the Philippines (1998) (hereinafter INTELL. PROP. CODE).

[2] INTELL. PROP. CODE, § 72 on the limitations of patent rights states that "[t]he owner of a patent has no right to prevent third parties from performing , without his authorization, the acts referred to in Section 71 hereof in the following circumstances ... [u]sing a patented product which has been put on the market in the Philippines by the owner of the product, or with his express consent, insofar as such use is performed after the product has been so put on the said market ..."

[3] PHILLIPS JEREMY, TRADEMARK LAW: A PRACTICAL ANATOMY 273-275 (2003).

[4] Rep. Act No. 9502, Universally Accessible Cheaper and Quality Medicines Act of 2008 (2008).

Philippines by himself or with his express consent, such as with the appointment of an authorized distributor, the re-sale of the patented goods in the Philippines by anyone other than the patent owner or his authorized distributor shall not be considered as an infringement of the patent.[5] Thus, if a third party imports, distributes, and sells the patented goods in the Philippines after the patent owner or his licensee introduces it to the market, such act shall not be considered an act of infringing the patent. This means that only the owner of the patent or his licensee may import the patented goods or any goods derived from the use of the patent into the country. This is called the national exhaustion doctrine.

With the enactment of the Cheaper Medicines Act, the rule with respect to patented pharmaceutical products is that if the patent owner, by himself or through another with his express consent, had put the patented goods in the market anywhere else in the world, the importation, distribution and sale of the patented pharmaceutical products sourced from abroad by a person other than the patent owner or his licensee shall not be deemed as an infringing act.[6] This is called the international exhaustion doctrine, and it applies only to drugs.[7]

However, Congress did not see fit to include a provision in the IP Code that incorporates the first sale doctrine in the case of *trademark rights*. Neither has the Supreme Court rendered a decision that applies this doctrine in a trademark case. Therefore, this article attempts to find an answer to the question of whether the first sale doctrine may find application in the Philippines with respect to trademarks.

For an easier understanding of this concept, we consider the following example. Acme Company, Inc. ("Acme"), an American company, is the owner of the word mark "Acme" as well as the device mark consisting of the word

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[5] INTELL. PROP. CODE, §72.

[6] This should not be confused with the parallel importation of generic drugs wherein such importation is prohibited because the generic version is deemed to infringe a valid and effective patent. For example, if a generic company imports from India the generic version of a drug that is still protected by a patent in the Philippines and which drug has been sold in the United States, such importation will be deemed as an act of infringement.

[7] INTELL. PROP. CODE, §72, as amended by Rep. Act No. 9502, §7 (2008). The amendment provides that "... [w]ith regards to drugs and medicines, the limitation on patent rights shall apply after a drug or medicine has been introduced in the Philippines or anywhere else in the world by the patent owner, or by any party authorized to use the invention..."

"Acme" in white font inside a blue logo, both of which are registered with the Intellectual Property Office of the Philippines for use on its salt substitute products. Acme has appointed Acme Philippines, Inc. ("Acme Philippines"), its Philippine subsidiary, as its exclusive distributor for its salt substitutes in the Philippines, with a license to use the "Acme" trademark. Because salt substitutes are considered "food," Acme Philippines also holds the product registration that it obtained from the Food and Drug Administration.

A local company called Salarium Company ("Salarium") sells genuine salt substitutes that it imports from a famous warehouse club in the United States. Salarium uses its own box packaging for "Acme" with the mark "Acme" prominently displayed. It also uses the slogan "Tastes like salt, better than salt, made from salt," which is not correct because Acme manufactures "Acme" not using salt as the basic ingredient but using other chemical compounds. The salt substitute has the same properties as real salt, without the concomitant harmful effects on the human body. Salarium uses the "Acme" word mark and device on its website to promote its salt substitutes, and has put on its website a direct link to the official website of Acme, such that if a customer clicks on the link, he would be directly led to Acme's website. The issue thus presented is whether Salarium infringes Acme's trademarks, considering that Salarium sells genuine "Acme" salt substitutes.

GENERAL DISCUSSION

The essence of trademark infringement is the use of a trademark by one without authority from the trademark owner in connection with the sale of goods and services when such use is likely to cause consumer confusion as to the source of those goods or services or as to the sponsorship or approval of such goods.[8] The use of a trademark would not be considered infringement if no confusion arises. It appears that if a trademark is used in connection with the resale of a genuine product, such use, even if the subsequent sale is not authorized by the trademark owner, would not be considered infringement because the consumer would not be confused with a genuine product.

This was the rule in the United States until 1987. Paragraphs (155.1) and (155.2) of Section 155 of the IP Code[9] are word for word reproductions of

[8] INTELL. PROP. CODE, §155.

[9] INTELL. PROP. CODE, §155 provides:

Any person who shall, without the consent of the owner of the registered mark:

paragraph 1, sub-paragraphs (a) and (b) of 15 U.S.C. § 1114 (Lanham Act).[10] Paragraph (a) addresses the situation where the infringing act is committed with the use in commerce of a reproduction or copy of a registered mark in connection with the sale, offering for sale, distribution, or advertising of any goods or services on or in connection with which such use is likely to cause confusion, or to cause mistake, or to deceive. On the other hand, paragraph (b) addresses the situation where the infringing act is committed by reproducing or copying a registered mark and applying such reproduction or copy to labels, signs, prints, packages, wrappers, receptacles or advertisements intended to be used in commerce upon or in connection with the sale, offering for sale, distribution, or advertising of goods or services on or in connection with which such use is likely to cause confusion, or to cause mistake, or to deceive. Considering that the application of the Lanham Act is not restricted merely to counterfeits or to goods that are not genuine, as it applies as well to reproductions and copies of the registered mark, the question was raised whether, if the reproduction of the registered mark was done with respect to the re-sale of a genuine good by one who is not the trademark owner's authorized reseller, such re-sale is an act of infringement of the mark because

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155.1. Use in commerce any reproduction, counterfeit, copy, or colorable imitation of a registered mark or the same container or a dominant feature thereof in connection with the sale, offering for sale, distribution, advertising of any goods or services including other preparatory steps necessary to carry out the sale of any goods or services on or in connection with which such use is likely to cause confusion, or to cause mistake, or to deceive; or

155.2. Reproduce, counterfeit, copy or colorably imitate a registered mark or a dominant feature thereof and apply such reproduction, counterfeit, copy or colorable imitation to labels, signs, prints, packages, wrappers, receptacles or advertisements intended to be used in commerce upon or in connection with the sale, offering for sale, distribution, or advertising of goods or services on or in connection with which such use is likely to cause confusion, or to cause mistake, or to deceive, shall be liable in a civil action for infringement by the registrant for the remedies hereinafter set forth: *Provided*, That the infringement takes place at the moment any of the acts stated in Subsection

155.1 or this subsection are committed regardless of whether there is actual sale of goods or services using the infringing material.

[10] 15 U.S.C. § 1114 states:

(1) Any person who shall, without the consent of the registrant—

(a) use in commerce any reproduction, counterfeit, copy, or colorable imitation of a registered mark in connection with the sale, offering for sale, distribution, or advertising of any goods or services on or in connection with which such use is likely to cause confusion, or to cause mistake, or to deceive; or

(b) reproduce, counterfeit, copy, or colorably imitate a registered mark and apply such reproduction, counterfeit, copy, or colorable imitation to labels, signs, prints, packages, wrappers, receptacles or advertisements intended to be used in commerce upon or in connection with the sale, offering for sale, distribution, or advertising of goods or services on or in connection with which such use is likely to cause confusion, or to cause mistake, or to deceive, shall be liable in a civil action by the registrant for the remedies hereinafter provided.

of the likelihood of causing confusion among consumers as to the product's immediate source.

In the 1908 decision of the United States (US) Supreme Court in *Bobbs-Merrill Co. v. Straus*,[11] which was the first iteration of the rule on exhaustion or first sale insofar as it applied to copyrights, the court recognized that once the sale has taken place, the copyright owner loses rights to his work, and cannot control disposition of such work any longer. The rationale for the rule was that since the copyright owner has been fairly compensated, he should not be allowed to restrict further commerce in his work, and the purchaser should be able to enjoy the fruits of his purchase. Thus, the purchaser may resell the copyrighted work.[12] This is not to say, however, that the copyright owner loses his moral rights to his work.

It took more than eight decades before a US court applied the same principle in trademark law. In *NEC Electronics v. CAL Circuit Abco*,[13] the Ninth Circuit US Court of Appeals held that under the first sale doctrine, "[o]nce a trademark owner sells his product, the buyer ordinarily may resell the product under the original mark without incurring any trademark law liability."[14] In other words, resale by the first purchaser of the original article under the producer's trademark is generally neither trademark infringement nor unfair competition.[15] The rationale behind the rule is that "trademark law is designed to prevent sellers from confusing or deceiving consumers about the origin or make of a product, which confusion ordinarily does not exist when a genuine article bearing a true mark is sold."[16] Moreover, "[t]he 'first sale' rule is not rendered inapplicable merely because consumers erroneously believe the reseller is affiliated with or authorized by the producer."[17]

However, if in the course of resale of the goods, the reseller alters or modifies the product as would result in a "material difference," then the trademark owner may disregard the first-sale doctrine, and institute an action

[11] 210 U.S. 339 (1908).

[12] This principle was enacted into law at 17 U.S.C. § 109(a).

[13] 810 F.2d 1506 (1987).

[14] *Id.* at 1059.

[15] Sebastian Int'l, Inc. v. Longs Drug Stores Corp., 53 F.3d 1073, 1074 (1995). *See, e.g.*, Enesco Corp. v. Price/Costo Inc., 146 F.3d 1083 (1998); SoftMan Products Co. v. Adobe Systems Inc., 171 F.Supp.2d 1075 (2001).

[16] NEC Electronics, *supra* note 13, at 1059.

[17] Sebastian, *supra* note 15, at 1076.

to protect his mark. In such a case, he would rely upon 15 U.S.C. § 1114, which is similar to Section 155 of the IP Code. Courts in the US have interpreted "material difference" to mean one that consumers consider relevant to a decision about whether to purchase a product.[18]

In *Davidoff & Cie, S.A. v. PLD International Corp.*,[19] the Eleventh Circuit Court of Appeals held that the owner of the registered mark "Cool Water" for fragrance products had a right to institute an action for infringement when PLD obliterated a batch code on the bottle with an etching tool. A batch code is used in the printing of information such as "sell by" dates, serial numbers, and other codes on products. While the fragrance was untouched by the process, the court nevertheless held that PLD's conduct of reselling genuine "Cool Water" with the code removed might cause a consumer to conclude that the bottle had been "harmed or tampered with."

In *SoftMan Products Co. v. Adobe Systems Inc.*,[20] the Central District Court of California was asked to determine whether the act of unbundling a collection of software and selling each individual software was an act of infringement. SoftMan was purchasing and breaking apart Adobe "Collections," a collection of such well-known software as *Photoshop*, *Illustrator*, *Pagemaker*, and *Acrobat*. SoftMan re-shrinkwrapped the software, and resold them individually. Adobe claimed that the absence of a registration card for each individually re-shrinkwrapped software was crucial because if purchasers were in need of customer service or technical assistance, their ability to gain such help was imperiled. The confusion would take the form of consumers questioning why Adobe failed to provide the registration card as it is customary in the industry to provide such help. The customer fallout from a lack of help would focus on Adobe. The court held that a product that has been rendered materially different should not be considered "genuine," and these end-products, re-shrinkwrapped by SoftMan, could create customer confusion and could infringe Adobe's trademarks.

In *Enesco Corp. v. Price/Costco Inc.*,[21] the Ninth Circuit Court of Appeals was asked to determine whether the repackaging by Costco, a big retailer in the US, of the plaintiffs' fragile porcelain figurines called "Precious Moments," which name was a registered trademark, would cause a likelihood of confusion.

[18] Nestle, S.A. v. Casa Helvetia, Inc., 982 F.2d 633 (1992).
[19] 263 F.3d 1297 (2001).
[20] 171 F.Supp.2d 1075 (2001).
[21] 146 F.3d 1083 (1998).

Enesco claimed that the repackaged, but less secure, wrapping constituted a "material difference" that harmed Enesco's reputation. When the porcelain was purchased in a damaged state, consumers would naturally blame Enesco for poor quality control. The court struck a compromise, and held that adequately informing the public of the fact of repackaging negated any suggestion that Enesco was responsible for the damage. Enesco's reputation for quality porcelain figures, and goodwill would remain intact. The public would not be misled, and there would be no likelihood of confusion.

In the example above, Salarium uses its own box packaging for "Acme" with the mark "Acme" prominently displayed. However, its use of the slogan "Tastes like salt, better than salt, made from salt" may amount to an alteration of the product because the claim is not correct, as in fact Acme manufactures "Acme" not using salt as the basic ingredient but using other chemical compounds. The salt substitute has the same properties as real salt, without the concomitant harmful effects on the human body.

Genuine products need not be altered or modified to give rise to an exception to the first sale doctrine. While the reseller can use the mark to describe the product it resells, it cannot create the impression that it acts with the sponsorship, approval or authorization of the mark owner. Indeed, under Article 50 of the Consumer Act[22], the act of a seller in representing that a consumer product or service has the sponsorship, approval, performance, characteristics, ingredients, accessories, uses, or benefits it does not have is a deceptive sales act that is punishable under that statute. Thus, while a used car seller can sell and advertise that it sells Toyota cars, it cannot falsely convey the impression that it is a Toyota authorized dealership. In the example above, the use by Salarium of the link to the official website of Acme creates the impression that indeed Salarium has the sponsorship or approval of Acme.

Certain situations make clear that no sponsorship is present. In *Tiffany (NJ), Inc. v. Ebay, Inc.*,[23] the Second Circuit Court of Appeals held that while *Ebay* and its auction resellers of genuine Tiffany products advertised the availability of Tiffany products on the auction website, such act falls within the ambit of the first sale doctrine because there was no reasonable inference that Tiffany sponsored, authorized, or was in control of the sales of Tiffany products under the circumstances.

[22] Rep. Act No. 7394, The Consumer Act of the Philippines (1992).
[23] 600 F.3d 93 (2010).

Product differentiation may also play a significant role on whether parallel imports should be prohibited. Thus, if the goods sold under the same trademark are of different qualities for different markets based on different market preferences or requirements, the reputation and goodwill established in the different markets is related to the particular product destined for that market and the sale of a product specifically intended for another market may constitute infringement. For example, "Perugina" chocolates that were manufactured in, and authorized for sale only in, Venezuela and different in milk fat content, sweeteners, packaging, variety and price due to market differences, were not allowed to be imported and sold in Puerto Rico where materially different Perugina chocolates were sold.[24] In still another example, US customs disallowed the importation into the US of a soap that was made according to a different formula for the United Kingdom market, even though the soap was manufactured by a related company of the US trademark owner.[25]

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In an age of widespread international commerce in goods, the issue has assumed greater importance. Indeed, courts in the Philippines should be provided with some form of guidance when confronted with a situation when the trademark is owned by a foreign company that has an authorized distributor and licensee in the Philippines, and another company imports genuine goods into the Philippines. Should the court, in an action for trademark infringement, find for the plaintiff in cases where the genuine product contains misleading claims? Or should the court stick to the proposition that since the product is genuine, it should find for the defendant pursuant to the first sale doctrine?

Applying the rule enunciated in *NEC Electronics* and the exceptions carved out in the cases pertaining to the "material difference" principle, [26] it would seem that as long as the items are genuine and the product is not materially altered, and as long as the reseller does not make it appear that it has any relationship with the trademark owner such as sponsorship and approval,

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[24] Societe de Produits Nestle, SA v. Casa Helvetia, Inc., 982 F2d 633 (1992).

[25] Lever Brothers Co. v. U.S., 981 F.2d 1330 (1993). *See also*, Ferrero U.S.A., Inc. v. Ozak Trading, Inc., 753 F.Supp. 1240 (1991), where parallel imports of TIC TAC breath mints were prohibited because they were materially different in size and caloric content from the authorized product.

[26] *See supra* notes 13-18 and accompanying text.

the other company may import, distribute, and resell the goods unrestricted without fear of being exposed to any liability for trademark infringement.

This conclusion, however, does not completely address the deeper conflict between conflicting rights and interest of the owner to its trademark and the consumer to lower priced goods. It has been suggested that trademark owners have an interest to control the sale of their goods beyond the first sale because of the need to prevent damage to the mark and the owner's reputation. Indeed, trademarks designate the source of, affix responsibility for and assure the quality of goods sold in the market.[27] Yet, it is these functions of a trademark that may also give rise to confusion among consumers as regards the origin, characteristics, qualities, warranties or other similar elements of the goods.

Brand damage may occur where, because of product differentiation, the product does not work as expected. Consider the case where a pesticide has two different formulations for tropical and temperate countries. A pesticide designed for a temperate country like the US necessarily can be used only in that country. In the same vein, only a pesticide designed for use in a tropical country like the Philippines should be used in that country. To ensure that this product differentiation is respected, trademark owners normally appoint distributors for a given territory. If a pesticide designed for the US market were to be imported into the Philippines by an entity that is not authorized by the trademark owner, and purchased and used by the consumer, it is likely that the pesticide may not work for the purpose for which it was intended. In that case, confusion occurs where the consumer is made to believe that the parallel product that is designed for the US market will work as well as in the Philippines. Since the efficacy of the product parallel imported from the US is compromised, the consumer would be disappointed and ultimately the blame would fall on the trademark owner.

A trademark owner may also be damaged in cases where the warranty on the product is not honored. And a consumer will likely be confused in buying a parallel imported product on the mistaken belief that the authorized distributor will honor any warranty claim on the product. A trademark owner

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[27] International Trademark Association, Board Resolution: Exhaustion of Trademark Rights and Parallel Importation (May 26, 1999), *available at* http://www.inta.org/Advocacy/Pages/ExhaustionofTrademarkRightsandParallelImportation.aspx.

may appoint a distributor for the Philippines,[28] and impose as one of the conditions for the grant of distribution rights that the distributor should honor warranty claims on the product. The distributor will be required to train its personnel in the repair of the product, sometimes necessitating the holding of trainings abroad. The distributor will be willing to assume this obligation on the condition that its business is amply protected against such threats as parallel imports that are typically priced lower than the products sold by the authorized distributor. Consider the case where the local distributor refuses to honor the warranty on a product that was parallel imported in the Philippines, because under Article 97 of the Consumer Act, where the importer did not place the product in the market, it shall not be liable on the warranty, such as free repair and replacement of broken parts within a certain period from purchase. Because the authorized distributor is not under any legal obligation to honor the warranty claim, and thus rightfully refuses to honor the warranty, the consumer will likely lose faith in that product. Ultimately, the trademark owner may be damaged as a result of loss of brand loyalty.

Damage to the trademark owner may also occur, although indirectly, in cases where the authorized distributor minimizes its expense on advertising on grounds that the parallel importer effectively benefits from the advertising made by the distributor. Indeed, it would not make sense for the authorized distributor to spend for the promotion of its products knowing fully well that a parallel importer would be benefitting from the said promotion without sharing in the costs. In that scenario, the authorized distributor would spend less on advertising to the prejudice of the trademark owner.

This arrangement also presents regulatory issues. Thus, in *Hackney London Borough Council v. Cedar Trading Ltd.*,[29] Coca Cola cans imported from The Netherlands could not be sold legally in the United Kingdom because the labels were in Dutch, and the ingredients were not listed. While regulated products such as foods and pharmaceuticals are governed by stringent requirements before they may be sold in the Philippines, even ordinary products are required to be appropriately labeled. At the barest minimum, all consumer products domestically sold whether manufactured locally or imported are required to indicate in their respective labels or packaging the address of the manufacturer, importer, or repacker of the consumer product in

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[28] A manufacturer will normally insist on the distributor to handle warranty claims because under Article 68 (b), no. 3 of the Consumer Act, primary liability on warranty claims rests with the manufacturer.

[29] 163 J.P. 749 (1999).

the Philippines.[30] In the case of foodstuff, local regulations require that the ingredients be listed.[31] Evidently, some, if not most, parallel importers do not comply with this regulatory requirement. They retain the original label that may only state the name, address, and other contact details of the manufacturer. Worse, they may even fail to indicate the origin of the product. This could give rise to problems because under Article 97 of the Consumer Act, any importer may be held liable for damages caused to consumers by defects resulting from design, manufacture, construction, assembly and erection, formulas and handling and making up, presentation or packing of their products. An authorized distributor will obviously be made the respondent in any such action for damages filed by a consumer who bought a defective product brought in by a parallel importer, if only because he is normally known in the market as the distributor. While the defense that he was not the importer may be available to the authorized distributor, any such baseless suit would still be injurious to the interest of both the trademark owner and the authorized distributor. Failure of the parallel importer to adequately defend the parallel imported product from baseless accusations that the same is defective as would result in an adverse finding against said product would also damage the reputation of the trademark and its owner.

Where does the Philippines stand? It appears that the Philippines has room for the application of the first sale doctrine to trademarks. In *Yu v. Court of Appeals*,[32] the local exclusive distributor of House of Mayfair wall covering products filed a complaint against his former dealer who purchased the same goods from House of Mayfair in England through a German company, and sold said goods in the Philippines. The local distributor sought an injunction to prevent the former dealer from engaging in the business on the theory that the latter was unfairly competing with the former within the context of Article 28[33] of the Civil Code. In holding that the local distributor is entitled to a writ of preliminary injunction, the Supreme Court held that:

> To Our mind, the right to perform an exclusive distributorship agreement and to reap the profits resulting from such

[30] Rep. Act No. 7394, art. 77 (1992).

[31] Ministry of Health Adm. Order No. 88-B (May 25, 1984), par. 3.2.1.

[32] G.R. No. 86683, 217 SCRA 328 (1993).

[33] CIVIL CODE, art. 28 states that "[u]nfair competition in agricultural, commercial or industrial enterprises or in labor through the use of force, intimidation, deceit, machination or any other unjust, oppressive or highhanded method shall give rise to a right of action by the person who thereby suffers damage."

> performance are proprietary rights which a party may protect (30 Am. Jur. Section 19, pp. 71-72; Jurado, Comments and Jurisprudence on Obligations and Contracts, 1983 8th Rev. Ed., p. 336) which may otherwise not be diminished, nay, rendered illusory by the expedient act of utilizing or interposing a person or firm to obtain goods from the supplier to defeat the very purpose for which the exclusive distributorship was conceptualized, at the expense of the sole authorized distributor (43 C.J.S. 597).
>
> Another circumstance which respondent court overlooked was petitioner's suggestion, which was not disputed by herein private respondent in its comment, that the House of Mayfair in England was duped into believing that the goods ordered through the FNF Trading were to be shipped to Nigeria only, but the goods were actually sent to and sold in the Philippines. A ploy of this character is akin to the scenario of a third person who induces a party to renege on or violate his undertaking under a contract, thereby entitling the other contracting party to relief therefrom (Article 1314, New Civil Code). The breach caused by private respondent was even aggravated by the consequent diversion of trade from the business of petitioner to that of private respondent caused by the latter's species of unfair competition as demonstrated no less by the sales effected inspite [sic] of this Court's restraining order. This brings Us to the irreparable mischief which respondent court misappreciated [sic] when it refused to grant the relief simply because of the observation that petitioner can be fully compensated for the damage. *A contrario*, the injury is irreparable where it is continuous and repeated since from its constant and frequent recurrence, no fair and reasonable redress can be had therefor by petitioner insofar as his goodwill and business reputation as sole distributor are concerned. Withal, to expect petitioner to file a complaint for every sale effected by private respondent will certainly court multiplicity of suits (3 Francisco, Revised Rules of Court, 1985 Edition, p. 261).[34]

While the right to exclude parallel imports pertains to the exclusive distributor, as the foregoing case illustrates, the effect is still the restriction on entry into the country of parallel imports which ultimately inures to the benefit of the trademark owner. Thus, while the prohibition against the entry of parallel imports in that case was affirmed by the Supreme Court on the basis of the civil law concept of tortious interference, it is submitted that the first sale

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[34] *See supra* note 32.

doctrine and the material alteration exception to the doctrine, insofar as they apply to trademarks, may be applied to parallel imports into the Philippines.

Likewise, while the Supreme Court characterized the act of the former dealer as a "species of unfair competition" that caused the "diversion of trade from the business of the petitioner to that of private respondent," this form of unfair competition is in the nature of tortious interference, which is an actionable wrong in the common law. Nonetheless, insofar as the principle applies to any breach of a trademark owner's exclusive rights to his mark where such breach is injurious to the rights of said owner, it is submitted that this decision may be applied to support the proposition that the principle of national exhaustion of trademark may be recognized by courts in the Philippines.

Even the IP Code seems to support this view. Section 87.8 of the IP Code prohibits the inclusion in licensing agreements that are also considered as technology transfer agreements of provisions "that prohibit the licensee to export the licensed product unless justified for the protection of the legitimate interest of the licensor such as exports to countries where exclusive licenses to manufacture and/or distribute the licensed product(s) have already been granted[.]" In other words, where a trademark owner has appointed an exclusive distributor for its products in Indonesia for example, it is not a violation of Section 87.8 of the IP Code if a licensing agreement between the same trademark owner and a Philippine licensee or distributor prohibited the latter from exporting the same goods to Indonesia. While this provision is intended to protect the market for the licensed products in a foreign country, the fact that the Philippines recognizes the protection of the local licensee in that foreign country from parallel imports from the Philippines suggests that the Philippines recognizes the principle of national exhaustion of trademarks.

There is an oft-repeated argument that the principle of national exhaustion should not be applied because as a form of trade restriction, it is anti-competitive, and curtails free trade and competition resulting in higher prices for consumers.[35] Indeed, it would appear that without national exhaustion, prices of consumer goods would be lower because the trademark owner and its authorized distributor would be forced to compete with the parallel importer. Parallel importers are able to do this by purchasing goods in a market where they are relatively cheaper and selling them where the price is

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[35] Sneha Jain, *Parallel Imports and Trademark Law*, 14 J. INTELL. PROP. RTS. 14, 15 (2009).

higher at a price that is below that of the authorized distributor.[36] Price differentiation among countries and markets happens due to several reasons such as currency fluctuations and differences in regulatory requirements, labor and material costs, environmental standards, government subsidies, and taxes.[37] Indeed, while the original price of pesticide may be similar in two countries, the upward movement of the currency in the first country relative to that of the second country may make the price in the first country higher than that in the second country. The regulatory requirements of the first country may make it more expensive for the manufacturer to comply compared to those of the second country, in which case the selling price of the goods would be higher. Distribution costs consisting of labor and materials in the first country may be higher than those in the second country. Price regulation in one country will certainly distort the prices of goods.

It is submitted, however, that the principle of national exhaustion may be applied to trademarks. This is because the so-called evils fostered by national exhaustion – trade restrictions, virtual monopolies and higher prices – may not exist in the market for goods where the intellectual property right protection is based on trademark. In contrast, a patent, which is a right to exclude others from using the invention, may virtually create a monopoly over that product. This is not to say that there is indeed a monopoly in the market for that product because similar products based on a different idea may be available. However, insofar as consumer choice is directed toward a particular product, such as a highly effective pharmaceutical product prescribed by a doctor and which is covered by a valid patent, a form of monopoly may arguably exist. When a standard of national exhaustion is sought to be applied to patents, the argument for allowing parallel importation may take a stronger form.

While the grant of trademark rights may give rise to monopoly-like powers, the "monopoly" is restricted only to the use of an identical or confusingly similar mark, and not to a product. This is because a number of similar products of the same quality and attributes will most likely be available

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[36] International Trademark Association, Board Resolution: Exhaustion of Trademark Rights and Parallel Importation (May 26, 1999), *available at* http://www.inta.org/Advocacy/Pages/ExhaustionofTrademarkRightsandParallelImportation.aspx.

[37] Yona Marinova, Setting the Boundaries of a 'Fortress Europe' for Parallel Imports, Contribution to the Workshop: Comparison Between EU Law and 1/3 States or International Organisations Law, European Commission.

in the market. Thus, if parallel importation were imposed as a result of the application of the principle of national exhaustion of trademarks, the argument pertaining to the so-called evils of trade restrictions would simply not apply. If the parallel importation of a particular branded product were disallowed, other similar products from other brands would still be available to consumers.

Another argument in favor of national exhaustion is that parallel importers have little or no motivation at all to maintain the goodwill and reputation of the mark and its ability to attract customers in the future. The parallel importer does not invest time and money in ensuring the quality of the product, and may provide little, if any, warranty, service or customer support.[38]

On the other hand, with currency fluctuations, parallel importers would source the goods from countries where currencies are weak (which make their export price relatively lower). Since the trademark owner has no control over currency fluctuations, it weakens its ability to command a good price for licenses from distributors who have no incentive to pay higher because of the presence of parallel imports from countries with weak currencies.[39]

CONCLUSION

Indeed, in a country where doing business is costly, regulatory requirements are difficult to comply with, judicial enforcement is hardly consistent, and the cost of labor and material is driven up artificially, a distributor and its principal need to be protected from unfair competition from parallel importers of genuine but materially altered goods through an action for trademark infringement. This conclusion gains more importance especially if we consider that parallel importers may not even comply with regulatory requirements and consumer protection, thus making their products cheaper than those originating from the authorized distributor, to the prejudice of both the distributor and the trademark owner.

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[38] International Trademark Association, Board Resolution: Exhaustion of Trademark Rights and Parallel Importation (May 26, 1999), *available at* http://www.inta.org/Advocacy/Pages/ExhaustionofTrademarkRightsandParallelImportation.aspx.

[39] *Id.*